UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2022

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 001-10306

NATWEST GROUP plc

(Exact name of Registrant as specified in its charter)

United Kingdom
(Jurisdiction of incorporation)

Gogarburn, PO Box 1000, Edinburgh EH12 1HQ, United Kingdom
(Address of principal executive offices)

Jan Cargill, Chief Governance Officer and Company Secretary,
Tel: +44 (0) 370 702 0135, Fax: +44 (0) 131 626 3081

PO Box 1000, Gogarburn, Edinburgh EH12 1HQ
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol (s)	Name of each exchange on which registered
American Depositary Shares, each representing 2 ordinary shares, nominal value £1.0769 per share	RBS	New York Stock Exchange
Ordinary shares, nominal value £1.0769 per share		New York Stock Exchange*
3.875% Senior Notes due 2023	RBS23B	New York Stock Exchange
6.000% Subordinated Tier 2 Notes due 2023	RBS23A	New York Stock Exchange
6.100% Subordinated Tier 2 Notes due 2023	RBS23	New York Stock Exchange
5.125% Subordinated Tier 2 Notes due 2024	RBS24	New York Stock Exchange
3.754% Fixed-to-fixed Reset Rate Subordinated Tier 2 Notes due 2029	RBS29A	New York Stock Exchange
3.032% Fixed-to-fixed Reset Rate Subordinated Tier 2 Notes due 2035	NWG35	New York Stock Exchange
4.519% Fixed Rate / Floating Rate Senior Notes due 2024	RBS23A	New York Stock Exchange
2.359% Callable Fixed-to-fixed Reset Rate Green Senior Notes due 2024	RBS24C	New York Stock Exchange
4.269% Fixed Rate / Floating Rate Senior Notes due 2025	RBS25	New York Stock Exchange
1.642% Senior Callable Fixed-to-Fixed Reset Rate Notes due 2027	NWG27	New York Stock Exchange
5.516% Senior Callable Fixed-to-fixed Reset Rate Notes due 2028	NWG28A	New York Stock Exchange
7.472% Callable Fixed-to-fixed Reset Rate Senior Notes due 2026	NWG26A	New York Stock Exchange
3.073% Callable Fixed-to-fixed Reset Rate Senior Notes due 2028	RBS28	New York Stock Exchange
4.892% Fixed Rate / Floating Rate Senior Notes due 2029	RBS29	New York Stock Exchange
5.076% Fixed Rate / Floating Rate Senior Notes due 2030	RBS30	New York Stock Exchange
4.445% Fixed Rate / Floating Rate Senior Notes due 2030	RBS30A	New York Stock Exchange
Senior Floating Rate Notes due 2023	RBS23C	New York Stock Exchange
Senior Floating Rate Notes due 2024	RBS24B	New York Stock Exchange

* Not for trading, but only in connection with the registration of American Depositary Shares representing such ordinary shares pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act:
None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

Perpetual Subordinated Contingent Convertible Additional Tier 1 Capital Notes callable 2025	Irish Stock Exchange
Perpetual Subordinated Contingent Convertible Additional Tier 1 Capital Notes callable 2025	London Stock Exchange
Perpetual Subordinated Contingent Convertible Additional Tier 1 Capital Notes callable 2027	London Stock Exchange
Reset Perpetual Subordinated Contingent Convertible Additional Tier 1 Capital Notes callable 2028	London Stock Exchange
Perpetual Subordinated Contingent Convertible Additional Tier 1 Capital Notes callable 2031	London Stock Exchange

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2022, the close of the period covered by the annual report:

(Title of each class)	(Number of outstanding shares)
Ordinary shares of £1.0769* each	9,786,023,923
11% cumulative preference shares	240,686
5½% cumulative preference shares	242,454

* nominal value of Ordinary shares without rounding is £1.076923076923077

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

☐ Yes ☒ No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

☐ Yes ☒ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer ", "accelerated filer" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-Accelerated filer ☐ Emerging growth company ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new ore revised financial accounting standards † provided pursuant to Section 13(a) of the Exchange Act. ☐

†The term "new or revised financial accounting standard" refers to any update issues by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

☐ U.S. GAAP

☒ International Financial Reporting Standards as issued by the International Accounting Standards Board

☐ Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

☐ Item 17 ☐ Item 18

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

☒ Yes ☐ No

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

☐ Yes ☒ No

SEC Form 20-F cross reference guide

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	C. Reasons for the offer and use of proceeds	Not applicable	Not applicable
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12	Description of Securities other than Equity Securities		
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	B. Warrants and Rights	Not applicable	Not applicable
	C. Other Securities	Not applicable	Not applicable
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SEC Form 20-F cross reference guide continued

Item	Item Caption	Pages	
PART II		**Annual Report on Form 20-F**	**Exhibit 15.2: Annual Report and Form 20-F Information**
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Forward looking statements

Cautionary statement regarding forward-looking statements

Certain sections in this document contain 'forward-looking statements' as that term is defined in the United States Private Securities Litigation Reform Act of 1995, such as statements that include the words 'expect', 'estimate', 'project', 'anticipate', 'commit', 'believe', 'should', 'intend', 'will', 'plan', 'could', 'probability', 'risk', 'Value-at-Risk (VaR)', 'target', 'goal', 'objective', 'may', 'endeavour', 'outlook', 'optimistic', 'prospects' and similar expressions or variations on these expressions. In particular, this document includes forward-looking targets and guidance relating to financial performance measures, such as income growth, operating expense, RoTE, ROE, discretionary capital distribution targets, impairment loss rates, balance sheet reduction, including the reduction of RWAs, CET1 ratio (and key drivers of the CET1 ratio including timing, impact and details), Pillar 2 and other regulatory buffer requirements and MREL and non-financial performance measures, such as NatWest Group's initial area of focus, climate and ESG-related performance ambitions, targets and metrics, including in relation to initiatives to transition to a net zero economy, Climate and Sustainable Funding and Financing (CSFF) and financed emissions. In addition, this document includes forward-looking statements relating, but not limited to: implementation of NatWest Group's purpose-led strategy and other strategic priorities (including in relation to: phased withdrawal from ROI, cost-controlling measures, the NatWest Markets refocusing, the creation of the C&I franchise and the progression towards working as One Bank across NatWest Group to serve customers); the timing and outcome of litigation and government and regulatory investigations; direct and on-market buy-backs; funding plans and credit risk profile; managing its capital position; liquidity ratio; portfolios; net interest margin and drivers related thereto; lending and income growth, product share and growth in target segments; impairments and write-downs; restructuring and remediation costs and charges; NatWest Group's exposure to political risk, economic assumptions and risk, climate, environmental and sustainability risk, operational risk, conduct risk, financial crime risk, cyber, data and IT risk and credit rating risk and to various types of market risk, including interest rate risk, foreign exchange rate risk and commodity and equity price risk; customer experience, including our Net Promotor Score (NPS); employee engagement and gender balance in leadership positions.

Limitations inherent to forward-looking statements

These statements are based on current plans, expectations, estimates, targets and projections, and are subject to significant inherent risks, uncertainties and other factors, both external and relating to NatWest Group's strategy or operations, which may result in NatWest Group being unable to achieve the current plans, expectations, estimates, targets, projections and other anticipated outcomes expressed or implied by such forward-looking statements. In addition, certain of these disclosures are dependent on choices relying on key model characteristics and assumptions and are subject to various limitations, including assumptions and estimates made by management. By their nature, certain of these disclosures are only estimates and, as a result, actual future results, gains or losses could differ materially from those that have been estimated. Accordingly, undue reliance should not be placed on these statements. The forward-looking statements contained in this document speak only as of the date we make them and we expressly disclaim any obligation or undertaking to update or revise any forward-looking statements contained herein, whether to reflect any change in our expectations with regard thereto, any change in events, conditions or circumstances on which any such statement is based, or otherwise, except to the extent legally required.

Important factors that could affect the actual outcome of the forward-looking statements

We caution you that a large number of important factors could adversely affect our results or our ability to implement our strategy, cause us to fail to meet our targets, predictions, expectations and other anticipated outcomes or affect the accuracy of forward-looking statements described in this document. These factors include, but are not limited to, those set forth in the risk factors and the other uncertainties described in NatWest Group plc's Annual Report on Form 20-F and its other filings with the US Securities and Exchange Commission. The principal risks and uncertainties that could adversely NatWest Group's future results, its financial condition and/or prospects and cause them to be materially different from what is forecast or expected, include, but are not limited to: economic and political risk (including in respect of: political and economic risks and uncertainty in the UK and global markets, including due to high inflation, supply chain disruption and the Russian invasion of Ukraine); uncertainty regarding the effects of Brexit; changes in interest rates and foreign currency exchange rates; and HM Treasury's ownership as the largest shareholder of NatWest Group plc); strategic risk (including in respect of the implementation of NatWest Group's purpose-led Strategy; future acquisitions and divestments; phased withdrawal from ROI and the transfer of its Western European corporate portfolio); financial resilience risk (including in respect of: NatWest Group's ability to meet targets and to make discretionary capital distributions; the competitive environment; counterparty and borrower risk; prudential regulatory requirements for capital and MREL; liquidity and funding risks; changes in the credit ratings; the requirements of regulatory stress tests; model risk; sensitivity to accounting policies, judgments, assumptions and estimates; changes in applicable accounting standards; the value or effectiveness of credit protection; the adequacy of NatWest Group's future assessments by the Prudential Regulation Authority and the Bank of England; and the application of UK statutory stabilisation or resolution powers); climate and sustainability risk (including in respect of: risks relating to climate change and the transitioning to a net zero economy; the implementation of NatWest Group's climate change strategy, including publication of an initial climate transition plan in 2023 and climate change resilient systems, controls and procedures; climate-related data and model risk; the failure to adapt to emerging climate, environmental and sustainability risks and opportunities; changes in ESG ratings; increasing levels of climate, environmental and sustainability related regulation and oversight; and climate, environmental and sustainability-related litigation, enforcement proceedings and investigations); operational and IT resilience risk (including in respect of: operational risks (including reliance on third party suppliers); cyberattacks; the accuracy and effective use of data; complex IT systems; attracting, retaining and developing senior management and skilled personnel; NatWest Group's risk management framework; and reputational risk); and legal, regulatory and conduct risk (including in respect of: the impact of substantial regulation and oversight; compliance with regulatory requirements; the outcome of legal, regulatory and governmental actions and investigations; the transition of LIBOR other IBOR rates to replacement risk-free rates; and changes in tax legislation or failure to generate future taxable profits).

Climate and ESG disclosures

Climate and ESG disclosures in this document are not measures within the scope of International Financial Reporting Standards ('IFRS'), use a greater number and level of judgements, assumptions and estimates, including with respect to the classification of climate and sustainable funding and financing activities, than our reporting of historical financial information in accordance with IFRS. These judgements, assumptions and estimates are highly likely to change over time, and, when coupled with the longer time frames used in these disclosures, make any assessment of materiality inherently uncertain. In addition, our climate risk analysis, net zero strategy, including the implementation of our climate transition plan remain under development, and the data underlying our analysis and strategy remain subject to evolution over time. The process we have adopted to define, gather and report data on our performance on climate and ESG measures is not subject to the formal processes adopted for financial reporting in accordance with IFRS and there are currently limited industry standards or globally recognised established practices for measuring and defining climate and ESG related metrics. As a result, we expect that certain climate and ESG disclosures made in this document are likely to be amended, updated, recalculated or restated in the future. Please also refer to the cautionary statement in the section entitled 'Climate-related and other forward-looking statements and metrics' of the NatWest Group 2022 Climate-related Disclosures Report.

Cautionary statement regarding Non-IFRS financial measures and APMs

NatWest Group prepares its financial statements in accordance with generally accepted accounting principles (GAAP). This document may contain financial measures and ratios not specifically defined under GAAP or IFRS ('Non-IFRS') and/or alternative performance measures ('APMs') as defined in European Securities and Markets Authority ('ESMA') guidelines. Non-IFRS measures and/or APMs are adjusted for notable and other defined items which management believes are not representative of the underlying performance of the business and which distort period-on-period comparison. Non-IFRS measures provide users of the financial statements with a consistent basis for comparing business performance between financial periods and information on elements of performance that are one-off in nature. Any Non-IFRS measures and/or APMs included in this document, are not measures within the scope of IFRS, are based on a number of assumptions that are subject to uncertainties and change, and are not a substitute for IFRS measures.

Disclaimer

The information, statements and opinions contained in this document do not constitute a public offer under any applicable legislation or an offer to sell or a solicitation of an offer to buy any securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments.

Presentation of information

In this Annual Report on Form 20-F, unless specified otherwise, 'parent company' refers to NatWest Group plc, and 'NatWest Group', 'Group' or 'we' refers to NatWest Group plc and its subsidiaries. The term 'NWH Group' refers to NatWest Holdings Limited ('NWH') and its subsidiary and associated undertakings. The term 'NWM Group' refers to NatWest Markets Plc ('NWM Plc') and its subsidiary and associated undertakings. The term 'NWM N.V.' refers to NatWest Markets N.V. The term 'NWMSI' refers to NatWest Markets Securities, Inc. The term 'RBS plc' refers to The Royal Bank of Scotland plc. The term 'NWB Plc' refers to National Westminster Bank Plc. The term 'UBIDAC' refers to Ulster Bank Ireland DAC. The term 'RBSI Limited' refers to The Royal Bank of Scotland International Limited. 'Go-forward group' excludes Ulster Bank RoI and discontinued operations.

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

To aid readability, this document retains references to EU legislative and regulatory provisions in effect in the UK before 1 January 2021 that have now been implemented in UK domestic law. These references should be read and construed as including references to the applicable UK implementation measures with effect from 1 January 2021.

Any information contained on websites linked or reports referenced in this Annual Report on Form 20-F is for information only and will not be deemed to be incorporated by reference herein.

References to the Pillar 3 Report, Climate related Disclosures Report and ESG Disclosures Report

This document contains reference throughout to the NatWest Group Pillar 3 Report, Climate related Disclosures Report and ESG Disclosures Report. Reference to these reports are made for information only and will not be deemed to be incorporated by reference herein.

Phased withdrawal from the Republic of Ireland

Three legally binding agreements for the sale of the UBIDAC business have been announced as part of the phased withdrawal from the Republic of Ireland: the transfer of performing commercial loans to Allied Irish Banks, p.l.c. (AIB), the sale of performing non-tracker mortgages, performing micro-SME loans, UBIDAC's asset finance business and 25 of its branch locations to Permanent TSB p.l.c Group Holdings p.l.c (PTSB) and an agreement with AIB for the sale of performing tracker and linked mortgages. The business activities relating to these sales that meet the requirements of IFRS 5 are presented as a discontinued operation and as a disposal group on 31 December 2022. The Financial review presents the results of the NatWest Group's continuing operations. For further details refer to Note 8 Discontinued operations and assets and liabilities of disposal groups in the Notes to the consolidated financial statements.

Reportable segments

Two changes to reportable segments have been made;

On 27 January 2022, NatWest Group announced that a new business segment, Commercial & Institutional, would be created, bringing together the Commercial, NatWest Markets and RBSI businesses to form a single business segment, with common management and objectives, to best support our customers across the full non-personal customer lifecycle.

Further progress with respect to the phased withdrawal from the Republic of Ireland has resulted in Ulster Bank RoI continuing operations no longer meeting the IFRS definition of an operating segment. Therefore Ulster Bank RoI is no longer shown separately and performance on a Go-forward group basis (NatWest Group excluding Ulster Bank RoI) will not be reported going forward. Selected Go-forward group metrics are still included to align with 2022 targets and guidance previously provided and the financial measures in 2022 executive director performance assessment.

Non-IFRS financial information

NatWest Group prepares its financial statements in accordance with generally accepted accounting principles (GAAP). This document contains a number of adjusted or alternative performance measures, also known as non-GAAP or non-IFRS performance measures. These measures are adjusted for notable and other defined items which management believe are not representative of the underlying performance of the business and which distort period-on-period comparison. The non-IFRS measures provide users of the financial statements with a consistent basis for comparing business performance between financial periods and information on elements of performance that are one-off in nature. The non-IFRS measures also include the calculation of metrics that are used throughout the banking industry. These non-IFRS measures are not measures within the scope of IFRS and are not a substitute for IFRS measures. For further information please refer to page 106.

Summary risk factors

Principal risks and uncertainties

Set out below is a summary of the principal risks and uncertainties that could adversely affect NatWest Group's future results, its financial condition and prospects and cause them to be materially different from what is forecast or expected, and directly or indirectly impact the value of its securities in issue. This summary should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties; a fuller description of these and other risk factors is included on pages 127 to 148 of this report on Form 20-F and should be read together with NatWest Group's other public disclosures. Any of the risks identified may have a material adverse effect on NatWest Group's business, operations, financial condition or prospects.

Economic and political risk

- NatWest Group, its customers and its counterparties face continued economic and political risks and uncertainties in the UK and global markets, including as a result of high inflation and rising interest rates, supply chain disruption and the Russian invasion of Ukraine
- Changes in interest rates have significantly affected, and will continue to affect, NatWest Group's business and results.
- Fluctuations in currency exchange rates may adversely affect NatWest Group's results and financial condition.
- Continuing uncertainty regarding the effects and extent of the UK's post Brexit divergence from EU laws and regulation, and NatWest Group's post Brexit EU operating model may adversely affect NatWest Group and its operating environment.
- HM Treasury (or UKGI on its behalf) could exercise a significant degree of influence over NatWest Group and further offers or sales of NatWest Group's shares held by HM Treasury may affect the price of NatWest Group securities.

Strategic risk

- NatWest Group continues to implement its purpose-led strategy, which carries significant execution and operational risks and may not achieve its stated aims and targeted outcomes.
- Future acquisitions or divestments by NatWest Group may not be successful, and consolidation or fragmentation of the financial services industry may adversely affect NatWest Group.
- NatWest Group's phased withdrawal from the Republic of Ireland present various risks.
- The transfer of NatWest Group's Western European corporate portfolio involves certain risks.

Financial resilience risk

- NatWest Group may not meet the targets it communicates or in a position to continue to make discretionary capital distributions (including dividends to shareholders).
- NatWest Group operates in markets that are highly competitive, with increasing competitive pressures and technology disruption.
- NatWest Group has significant exposure to counterparty and borrower risk.
- NatWest Group may not meet the prudential regulatory requirements for regulatory capital and MREL, or manage its capital effectively, which could trigger the execution of certain management actions or recovery options.
- NatWest Group may not be able to adequately access sources of liquidity and funding.
- Any reduction in the credit rating and/or outlooks assigned to NatWest Group plc, any of its subsidiaries or any of their respective debt securities could adversely affect the availability of funding for NatWest Group, reduce NatWest Group's liquidity position and increase the cost of funding.
- NatWest Group may be adversely affected if it fails to meet the requirements of regulatory stress tests.
- NatWest Group could incur losses or be required to maintain higher levels of capital as a result of limitations or failure of various models.
- NatWest Group's financial statements are sensitive to underlying accounting policies, judgments, estimates and assumptions.
- Changes in accounting standards may materially impact NatWest Group's financial results.
- The value or effectiveness of any credit protection that NatWest Group has purchased depends on the value of the underlying assets and the financial condition of the insurers and counterparties.
- NatWest Group is subject to Bank of England and PRA oversight in respect of resolution, and NatWest Group could be adversely affected should the Bank of England in the future deem NatWest Group's preparations to be inadequate.
- NatWest Group may become subject to the application of UK statutory stabilisation or resolution powers which may result in, for example, the cancellation, transfer or dilution of ordinary shares, or the write-down or conversion of certain other of NatWest Group's securities.

Climate and sustainability risks

- NatWest Group and its customers, suppliers and counterparties face significant climate and sustainability-related risks, which may adversely affect NatWest Group.
- NatWest Group's climate change related strategy, ambitions, targets and transition plan entail significant execution and reputational risk and are unlikely to be achieved without significant and timely government policy, technology and customer behavioural changes.
- There are significant limitations related to accessing reliable, verifiable and comparable climate and other sustainability-related data, including as a result of lack of standardisation, consistency and completeness which, alongside other factors, contribute to substantial uncertainties in accurately modelling and reporting on climate and sustainability information, as well as making appropriate important internal decisions.
- A failure to implement effective climate change resilient governance, procedures, systems and controls in compliance with legal and regulatory expectations to manage climate and sustainability-related risks and opportunities could adversely affect NatWest Group's ability to manage those risks.
- Increasing levels of climate, environmental, human rights and other sustainability-related laws, regulation and oversight which are constantly evolving may adversely affect NatWest Group.
- NatWest Group may be subject to potential climate, environmental, human rights and other sustainability-related litigation, enforcement proceedings, investigations and conduct risk.
- A reduction in the ESG ratings of NatWest Group could have a negative impact on NatWest Group's reputation and on investors' risk appetite and customers' willingness to deal with NatWest Group.

Operational and IT resilience risk

- Operational risks (including reliance on third party suppliers and outsourcing of certain activities) are inherent in NatWest Group's businesses.
- NatWest Group is subject to increasingly sophisticated and frequent cyberattacks.
- NatWest Group operations and strategy are highly dependent on the accuracy and effective use of data.
- NatWest Group's operations are highly dependent on its complex IT systems and any IT failure could adversely affect NatWest Group.
- NatWest Group relies on attracting, retaining and developing diverse senior management and skilled personnel, and is required to maintain good employee relations.
- A failure in NatWest Group's risk management framework could adversely affect NatWest Group, including its ability to achieve its strategic objectives.
- NatWest Group's operations are subject to inherent reputational risk.

Legal, regulatory and conduct risk

- NatWest Group's businesses are subject to substantial regulation and oversight, which are constantly evolving and may adversely affect NatWest Group.
- NatWest Group is exposed to the risks of various litigation matters, regulatory and governmental actions and investigations as well as remedial undertakings, including conduct-related reviews, anti-money laundering and redress projects, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on NatWest Group.
- NatWest Group may not effectively manage the transition of LIBOR and other IBOR rates to replacement risk free rates.
- Changes in tax legislation or failure to generate future taxable profits may impact the recoverability of certain deferred tax assets recognised by NatWest Group.

Financial review

We are pleased to report an attributable profit in 2022 of £3,340 million, with earnings per share of 33.8 pence and a RoTE of 12.3%. This is net of a £1.0 billion attributable loss from our continued withdrawal from the Republic of Ireland.

Total income increased by 26.1% to £13,156 million compared with 2021. Excluding notable items, income was £2,877 million, or 28.3%, higher than 2021, driven by volume growth, increased transactional related fees, higher trading income and favourable yield curve movements. Go-forward income excluding notable items, was £13.1 billion, exceeding our income guidance for the year, and we achieved our cost reduction target of around 3%. A net impairment charge of 9 basis points was in line with guidance and, whilst default levels remain low, we continue to monitor the evolving economic outlook. Net interest margin of 1.81% was 36 basis points higher compared with 2021. Bank NIM of 2.85% was 55 basis points higher than 2021.

Operating expenses were £71 million lower than 2021. Other operating expenses, for the Go-forward group, were £201 million, or 2.9%, lower than 2021, in line with our cost reduction target of around 3%. The decrease in the year principally reflects property exits, continued focus on customer journeys and strategic efficiency initiatives.

A net impairment charge of £337 million principally reflects the latest macro-economics, including updated scenarios and their associated weighting. Underlying book performance remains strong, with credit conditions remaining benign and levels of default remaining low. Compared with 2021, our ECL provisions have reduced by £0.4 billion to £3.4 billion, and our ECL coverage ratio has decreased from 1.03% in 2021 to 0.91% in 2022.

The tax charge for the year includes a £267 million credit in the carrying value of the deferred tax asset in respect of tax losses, reflecting an improvement in the outlook when compared with the position at the end of 2021. In addition, the charge also includes a credit of £135 million in respect of an inflationary uplift in the value of UK Government Index Linked Gilt assets that is not subject to corporation tax.

Net lending increased by £7.3 billion, or 2.0%, in 2022 primarily reflecting £14.4 billion of mortgage lending growth in Retail Banking and £5.7 billion of growth in Commercial & Institutional, partially offset by a £14.6 billion reduction in Central items & other, which included a £6.4 billion decrease as we continued our exit from the Republic of Ireland. Retail Banking gross new mortgage lending for the year was £41.4 billion compared with £36.0 billion in 2021. Within Commercial & Institutional, growth was largely within Corporate & Institutions whilst UK Government Scheme lending reduced by £3.4 billion.

Customer deposits reduced by £29.5 billion in the year to £450.3 billion principally reflecting a £14.2 billion reduction in Commercial & Institutional, due to an overall market liquidity contraction in the second half of the year and reduction in Corporate and Institutions, particularly non-operational accounts in Financial Institutions and professional services with relatively low margin and funding value, and a £12.2 billion reduction due to our withdrawal from the Republic of Ireland.

TNAV per share reduced by 8 pence in the year to 264 pence principally reflecting movements in cash flow hedging reserves of 34 pence per share, dividend payments and other reserve movements partially offset by the attributable profit.

Capital and Leverage

The CET1 ratio remains robust at 14.2%, or 14.0% excluding IFRS 9 transitional relief. The 170 basis point reduction compared with 1 January 2022 primarily reflected distributions and linked pension accruals of c.310 basis points.Compared with the 1 January 2022 position, RWAs reduced by £0.2 billion as lending growth and model changes were offset by a £5.7 billion reduction in the Republic of Ireland.

We reached agreement with our pension trustees to restructure the previous agreement to make dividend linked contributions and we will no longer pay £471 million in 2023. We have agreed to create a trust structure to hold those assets and that gives the pension fund rights to assets in the value of £471 million in the event a future funding requirement arises based on pre-agreed triggers. These assets will remain on the Group balance sheet in the meantime. We continue to hold the same deduction against capital.

Funding and liquidity

LCR reduced to 145% during the year driven by a decrease in the liquidity portfolio, primarily reflecting lending growth and reduced customer deposits along with shareholder distributions, and a relatively lower reduction in net outflows.

	Year ended		
	2022	2021[1]	Variance
Continuing operations			
Total income	**£13,156m**	£10,429m	26.1 %
Total income excluding notable items[2,4]	**£13,061m**	£10,184m	28.3 %
Operating expenses	**(£7,687m)**	(£7,758m)	(0.9)%
Profit before impairment (losses)/releases	**£5,469m**	£2,671m	104.8 %
Operating profit before tax	**£5,132m**	£3,844m	33.5 %
Go-forward group[3,4]			
Go-forward group total income excluding notable items[4]	**£13,063m**	£10,074m	29.7 %
Go-forward group other operating expenses[3,4]	**(£6,648m)**	(£6,849m)	2.9 %
Net interest margin	**1.81 %**	1.45 %	0.36 %
Bank net interest margin[4,5]	**2.85 %**	2.30 %	55bps
Bank average interest earning assets[4,5]	**£348bn**	£327bn	5.5 %
Cost:income ratio	**58.4 %**	74.4 %	(16.0)%
Cost:income ratio (excl. litigation and conduct)[4]	**55.5 %**	69.9 %	(14.4)%
Loan impairment rate[4]	**9bps**	(32bps)	41bps
Profit attributable to ordinary shareholders	**£3,340m**	£2,950m	13.2 %
Total earnings per share attributable to ordinary shareholders – basic[6]	**33.8p**	27.3p	6.5p
Return on equity	**8.7 %**	6.9 %	1.8 %
Return on tangible equity[4]	**12.3 %**	9.4 %	2.9 %
Lending and deposits			
Loans to customers – amortised cost	**£366.3bn**	£359.0bn	2.0 %
Customer deposits	**£450.3bn**	£479.8bn	(6.1)%
Capital, funding and liquidity			
Common Equity Tier 1 (CET1) ratio[7]	**14.2 %**	18.2 %	400bps
Risk-weighted assets (RWAs)[7]	**£176.1bn**	£157.0bn	£19.1bn
Liquidity coverage ratio (LCR)	**145 %**	172 %	27 %
Total wholesale funding[4]	**£74.4bn**	£76.7bn	£2.3bn
Tangible net asset value (TNAV) per ordinary share[4,8]	**264p**	272p	(8p)

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations.
(2) Refer to page 10 for details of notable items within total income.
(3) Go-forward group excludes Ulster Bank RoI and discontinued operations.
(4) Refer to the Non-IFRS financial measures section for details of the basis of preparation and reconciliation of non-financial measures and performance metrics.
(5) NatWest Group excluding liquid asset buffer.
(6) At the General Meeting and Class Meeting on 25 August 2022, the shareholders approved the proposed special dividend and share consolidation. On 30 August 2022 the issued ordinary share capital was consolidated in the ratio of 14 existing shares for 13 new shares. The average number of shares for earnings per share has been adjusted retrospectively.
(7) Refer to the Capital, liquidity and funding risk section for details of basis of preparation. On 1 January 2022 the proforma CET1 ratio was 15.9% and RWAs were £176.3 billion following regulatory changes.
(8) The number of ordinary shares in issue excludes own shares held. Comparatives for the number of shares in issue and TNAV per ordinary share have not been adjusted for the effect of the share consolidation referred to in footnote 6 above.

This section includes a discussion on our operating results for the year ended 31 December 2022, including a comparative discussion on our operating results for the year ended 31 December 2021. For a discussion on our operating results for the year ended 31 December 2021, including a comparative discussion on our operating results for the year ended 31 December 2020, refer to “Business Review” on pages 9 to 22 in our 2021 Annual Report on Form 20-F (File No. 001-10306) filed with the Securities and Exchange Commission on March 4, 2022.

Segmental performance

Reportable operating segments:

The business is organised into the following reportable segments: Retail Banking, Private Banking, Commercial & Institutional, and Central items & other.

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

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

Commercial & Institutional brings together our Commercial Banking, NatWest Markets and RBS International businesses, to support our customers across the full non-personal customer lifecycle, both domestically and internationally. Our Markets offering helps our customers manage financial risks across different geographies, while our International offering provides full-service banking operations in the Channel Islands, Isle of Man, Gibraltar and Luxembourg.

Central items & other includes corporate functions, such as NatWest Group Treasury, finance, risk management, compliance, legal, communications and human resources. Central functions manages NatWest Group capital resources and NatWest Group-wide regulatory projects and provides services to the reportable segments. Balances in relation to litigation issues and the international private banking business are included in Central items in the relevant periods. Ulster Bank RoI is no longer an operating segment and its continuing operations now form part of Central items & other.

Competition

Introduction

NatWest Group's ability to attract and manage funding remains a critical competitive advantage. Other key competitive factors include cost management, growing digital sales focus, branch network re-shaping, and product simplification. Cost management remains a key focus, as banks seek to simplify their organisational and IT architectures while at the same time investing to ensure that they can meet customers' evolving channel preferences. Customers have increasingly focused on the use of internet and mobile as sales and service channels for certain types of products. Therefore, competitive position and performance increasingly depends on the possession of user-friendly, diverse and efficient online solutions.

Retail Banking

In the retail banking business, NatWest Group competes with a range of providers including UK banks and building societies, major retailers and life assurance companies, as well as the UK subsidiaries of major international banks. In the mortgage market, NatWest Group competes with UK banks, building societies and specialist lenders. Increasingly, the ambitions of non-traditional players in the UK market are gaining credibility, with new entrants active and seeking to build their platforms either through organic growth or in some cases by acquiring businesses made available through the restructuring of incumbents.

Entrants with new business models such as peer-to-peer lending platforms, while currently small, continue to grow rapidly and are emerging as significant competitors. Such competitors often target specific elements of the value chain, providing specialised services to particular customer segments.

In the UK credit card market, large retailers and specialist card issuers are active in addition to the UK banks. In addition to physical distribution channels, providers compete through direct marketing activity and digital channels.

NatWest Group distributes life assurance products to banking customers in competition with independent advisors and life assurance companies.

Private Banking

Competition with UK clearing and private banks, asset managers and with international private banks. Competition in wealth management remains strong as banks maintain their focus on competing for affluent and high net worth customers.

Commercial & Institutional

In 2022, NatWest Group announced the creation of Commercial & Institutional, which brought together the former Commercial Banking, NatWest Markets and RBSI International customer businesses.

In the business banking market, the bank competes with other UK banks, specialist finance providers and building societies. The Commercial Mid-market segment primarily competes with UK Banks and also includes an asset finance and invoice finance offering which competes with banks and specialist finance providers, both captive and non-captive. Competition for corporate, institutional and business customers in the UK is from UK banks, from specialised global and regional investment banks and from large foreign universal banks that offer combined investment and commercial banking capabilities as well as from new entrants and non-bank challengers.

Our Corporate and Institution business also competes with international banks which offer offshore and domestic banking services in the Channel Islands, Gibraltar and the Isle of Man as well as depositary services in UK and Luxembourg. In addition, the business provides financing and risk solutions to large corporates in the UK and Western Europe as well as global financial institutions and competes with large domestic banks, major international banks and a number of investment banks that offer risk management, trading solutions and debt financing to financial institutions and UK and European corporate customers.

Key competitive factors in this market include entrants with new technology-based business model, ability to develop digital innovation, expertise and markets insight of employees and delivering value-adding bespoke solutions for customers.

Financial summary

Income - Continuing operations	2022 £m	2021 [1] £m	Variance £m	Variance %
Interest receivable (2)	**12,637**	9,234	3,403	36.9
Interest payable (2)	**(2,795)**	(1,699)	(1,096)	64.5
Net interest income	**9,842**	7,535	2,307	30.6
Net fees and commissions	**2,292**	2,120	172	8.1
Income from trading activities	**1,133**	323	810	250.8
Other operating income	**(111)**	451	(562)	(124.6)
Non-interest income	**3,314**	2,894	420	14.5
Total income	**13,156**	10,429	2,727	26.1
Total income excluding notable items	**13,061**	10,184	2,877	28.3
Notable items within total income (3)				
Private Banking				
Consideration on the sale of the Adam & Company Investment Management Ltd	**—**	54		
Commercial & Institutional				
Fair value and disposal losses and asset disposals/strategic risk reduction	**(45)**	(86)		
Tax variable lease repricing	**—**	32		
Own credit adjustments (OCA)	**42**	6		
Central items & other				
Loss on redemption of own debt	**(161)**	(138)		
Effective interest rate adjustment as a result of redemption of own debt	**(41)**	—		
Profit from insurance liabilities	**92**	—		
Ulster Bank RoI gain arising from the restructuring of structural hedges	**—**	35		
Ulster Bank RoI fair value mortgage adjustments	**(51)**	—		
Liquidity asset bond sale (losses)/gains	**(88)**	120		
Share of associate (losses)/profits for Business Growth Fund	**(22)**	219		
Property strategy update	**—**	(44)		
Interest and FX risk management derivatives not in accounting hedge relationships (4)	**369**	47		
Total	**95**	245		

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8 to the consolidated financial statements.
(2) Interest receivable and interest payable on trading assets and liabilities are included in income from trading activities.
(3) Refer to the Non-IFRS financial measures section for details of the basis of preparation and reconciliation of Non-IFRS financial and performance measures.
(4) Included in income from trading activities.

2022 compared with 2021

- Total income increased by 26.1% to £13,156 million compared with 2021. Excluding notable items, income was £2,877 million, or 28.3%, higher than 2021 driven by volume growth, increased transactional related fees, higher trading income and favourable yield curve movements.
- Net interest margin of 1.81% was 36 basis points higher compared with 2021. Bank NIM of 2.85% was 55 basis points higher than 2021 principally reflecting the impact of base rate increases.
- Structural hedges, which averaged £223 billion notional in 2022, generated £2.1 billion of net interest income for the year, compared with £1.4 billion of net interest income on a balance of £190 billion in 2021.

Operating expenses - Continuing operations	2022 £m	2021 [1] £m	Variance £m	Variance %
Staff expenses	**3,671**	3,676	(5)	(0.1)
Premises and equipment	**1,112**	1,133	(21)	(1.9)
Other administrative expenses	**1,686**	1,560	126	8.1
Depreciation and amortisation	**833**	923	(90)	(9.8)
Other operating expenses	**7,302**	7,292	10	0.1
Litigation and conduct costs	**385**	466	(81)	(17.4)
Operating expenses	**7,687**	7,758	(71)	(0.9)

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8 to the consolidated financial statements.

Financial summary continued

2022 compared with 2021

- Operating expenses were £71 million lower than in 2021. Operating expenses in the Go-forward group excluding litigation and conduct costs of £385 million (2021 - £466 million), were £6,648 million (2021 - £6,849 million). The decrease of £201 million, or 2.9%, was in line with our cost reduction target of around 3% and principally reflects property exits, continued focus on customer journeys and strategic efficiency initiatives. This has been supported by ongoing strategic investment in key areas, including Data, Technology and Financial Crime.
- Litigation and conduct costs of £385 million represent the net impact of a number of remediation and litigation matters concluding, including customer due diligence costs paid during the year. Refer to Note 26 to the consolidated financial statements for additional information on other litigation and conduct matters.

Impairments - Continuing operations	2022 £m	2021 (1) £m	Variance £m	
Loans - amortised cost and FVOCI	**377,153**	369,827	7,326	2.0 %
ECL provisions	**3,434**	3,806	(372)	(9.8)%
ECL provisions coverage ratio	**0.91 %**	1.03 %	(0.12)%	(11.7)%
Impairment losses/(releases)				
ECL charge/(release) (2)	**337**	(1,173)	1,510	(128.7)%
Amounts written off	**482**	876	(394)	(45.0)%

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8 to the consolidated financial statements.
(2) The table above summarises loans and related credit impairment measured on an IFRS 9 basis. Refer to Credit Risk – Banking activities in the Risk and capital management section for further details.

2022 compared with 2021

- A net impairment charge of £337 million principally reflects the latest macro-economics, including updated scenarios and their associated weighting, with more weight being placed on the downside scenario. Underlying book performance remains strong, with credit conditions remaining benign, with levels of default remaining low. Compared with 2021, our ECL provisions have reduced by £0.4 billion to £3.4 billion, and our ECL coverage ratio has decreased from 1.03% to 0.91%. The element of our economic uncertainty post model adjustments (PMA) that relates to COVID-19 risks has been reduced, which, when combined with revisions to our scenario weightings, has allowed us to reduce the amount we hold as economic uncertainty PMA to £0.4 billion, or 10.3% of total impairment provisions.

Tax - Continuing operations	2022 £m	2021 (1) £m
Tax charge	**(1,275)**	(996)
UK corporation tax rate	**19.0 %**	19.0 %
Effective tax rate	**24.8 %**	25.9 %

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8 to the consolidated financial statements.

2022 compared with 2021

- A tax charge of £1,275 million for the year ended 31 December 2022 arises rather than the expected charge of £975 million based on the corporation tax rate of 19%. The higher tax charge reflects the UK banking surcharge, no tax relief for RoI tax losses, and other non-deductible items. These factors have been partially offset by tax credits in respect of the carrying value of loss DTAs and the RPI uplift on indexed linked gilts. Further details can be found in Note 7 to the consolidated financial statements.

Summary consolidated balance sheet as at 31 December 2022

	2022 £m	2021 £m	Variance £m	Variance %
Assets				
Cash and balances at central banks	**144,832**	177,757	(32,925)	(19)
Trading assets	**45,577**	59,158	(13,581)	(23)
Derivatives	**99,545**	106,139	(6,594)	(6)
Settlement balances	**2,572**	2,141	431	20
Loans to banks - amortised cost	**7,139**	7,682	(543)	(7)
Loans to customers - amortised cost	**366,340**	358,990	7,350	2
Other financial assets	**30,895**	46,145	(15,250)	(33)
Other assets (including intangible assets)	**16,292**	14,965	1,327	9
Assets of disposal groups	**6,861**	9,015	(2,154)	(24)
Total assets	**720,053**	781,992	(61,939)	(8)
Liabilities				
Bank deposits	**20,441**	26,279	(5,838)	(22)
Customer deposits	**450,318**	479,810	(29,492)	(6)
Settlement balances	**2,012**	2,068	(56)	(3)
Trading liabilities	**52,808**	64,598	(11,790)	(18)
Derivatives	**94,047**	100,835	(6,788)	(7)
Other financial liabilities	**49,107**	49,326	(219)	(0)
Subordinated liabilities	**6,260**	8,429	(2,169)	(26)
Notes in circulation	**3,218**	3,047	171	6
Other liabilities	**5,346**	5,797	(451)	(8)
Total liabilities	**683,557**	740,189	(56,632)	(8)
Total equity	**36,496**	41,803	(5,307)	(13)
Total liabilities and equity	**720,053**	781,992	(61,939)	(8)
Tangible net asset value per ordinary share (pence) (1)	**264p**	272p	(8)p	(3)

(1) Tangible net asset value per ordinary share represents tangible equity divided by the number of ordinary shares.

- Total assets of £720.1 billion as at 31 December 2022 decreased by £61.9 billion, 8%, compared with 31 December 2021. This was primarily driven by decreases in cash and balances at central banks, other financial assets, trading assets and derivative assets partially offset by an increase in loans to customers.
- Cash and balances at central banks decreased by £32.9 billion mainly due to net business segment funding outflows driven by an overall market liquidity contraction, £28.0 billion, movements in FX swaps £8.0 billion and higher levels of debt market activity £4.0 billion partly offset by liquidity management measures, £8.0 billion.
- Other financial assets decreased by £15.3 billion mainly as a result of net Government and Supranational bond trading of £13.5 billion and lower mark-to-market valuations of £1.6 billion on account of higher interest rates.
- Trading assets and trading liabilities reduced by £13.6 billion and £11.8 billion respectively, reflecting the lower trading activity in response to the volatility in key currency rates.
- Derivative assets decreased by £6.6 billion, 6%, to £99.5bn and liabilities decreased by £6.8 billion, 7%, to £94.0 billion. These movements were driven by a decrease in interest rate trading books on account of lower mark-to-market valuations in main currencies partially offset by an increase in exchange rate assets trading book.
- Total loans to customers increased by £7.4 billion to £366.3 billion, primarily reflecting £14.4 billion growth in Retail Banking mortgage business and a £5.7 billion increase in Commercial & Institutional partially offset by a £14.6 billion reduction in Central items & other, which included a £6.4 billion decrease as we continued our exit from the Republic of Ireland.
- Customer deposits decreased by £29.5 billion principally reflecting a reduction of £14.2 billion in Commercial & Institutional, due to an overall market liquidity contraction in the second half of the year and a £12.2 billion reduction as a result of the withdrawal from the Republic of Ireland.
- Bank deposits decreased by £5.8 billion mainly due to lower repo activity due to market conditions.
- Other financial liabilities, which includes customer deposits at fair value through profit and loss and debt securities in issue, decreased by £0.2 billion, to £49.1 billion.
- Subordinated liabilities have decreased by £2.2 billion, 26%, to £6.3 billion due to redemptions partially offset by new issuances.
- Other liabilities decreased by £0.5 billion, 8%, to £5.3 billion mainly due to a decrease in financial guarantees and accrued lease liabilities.
- Owners' equity decreased by £5.3 billion, 13%, to £36.5 billion, driven by share repurchase, ordinary and paid-in equity dividends paid, partially offset by the attributable profit for the year.

Segmental summary income statements

Two changes to reportable segments have been made;

On 27 January 2022, NatWest Group announced that a new business segment, Commercial & Institutional, would be created, bringing together the Commercial, NatWest Markets and RBSI businesses to form a single business segment, with common management and objectives, to best support our customers across the full non-personal customer lifecycle.

Following good progress with respect to the phased withdrawal from the Republic of Ireland, announced in February 2021, Ulster Bank RoI continuing operations are now included in Central items & other.

Comparatives have been re-presented. The re-presentation of operating segments does not change the consolidated financial results of NatWest Group.

Continuing operations

2022	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total NatWest Group £m
Net interest income	5,224	777	4,171	(330)	9,842
Non-interest income	422	279	2,242	371	3,314
Total income	5,646	1,056	6,413	41	13,156
Direct expenses	(700)	(219)	(1,497)	(4,886)	(7,302)
Indirect expenses	(1,784)	(391)	(2,066)	4,241	—
Other operating expense	(2,484)	(610)	(3,563)	(645)	(7,302)
Litigation and conduct costs	(109)	(12)	(181)	(83)	(385)
Operating expenses	(2,593)	(622)	(3,744)	(728)	(7,687)
Operating profit/(loss) before impairment losses/releases	3,053	434	2,669	(687)	5,469
Impairment (losses)/ releases	(229)	2	(122)	12	(337)
Operating profit/(loss)	2,824	436	2,547	(675)	5,132
Total income excluding notable items(1)	5,646	1,056	6,416	(57)	13,061
Return on tangible equity (1)	na	na	na	na	12.3 %
Return on equity (1)	na	na	na	na	8.7 %
Segmental return on equity (2)	28.6 %	24.5 %	12.2 %	nm	na
Cost:income ratio	45.9 %	58.9 %	58.4 %	nm	58.4 %
Cost:income ratio (excl. litigation and conduct) (1)	44.0 %	57.8 %	55.6 %	nm	55.5 %
Customer deposits (£bn)	188.4	41.2	203.3	17.4	450.3
Average interest earning assets (£bn)	190.8	19.1	126.1	nm	345.2
Net interest margin (1)	2.74 %	4.07 %	3.31 %	nm	2.85 %
Third party asset rate (1,3)	2.64 %	3.01 %	3.53 %	nm	nm
Third party customer funding rate (1,3)	(0.20)%	(0.27)%	(0.21)%	nm	nm

For the notes to this table, refer to the following page. nm = not meaningful, na = not applicable.

Continuing operations

2021 (4)	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total NatWest Group £m
Net interest income	4,074	480	2,074	7	7,535
Non-interest income	371	336	1,864	323	2,894
Total income	4,445	816	4,838	330	10,429
Direct expenses	(805)	(200)	(1,773)	(4,514)	(7,292)
Indirect expenses	(1,632)	(323)	(1,873)	3,828	—
Other operating expense	(2,437)	(523)	(3,646)	(686)	(7,292)
Litigation and conduct costs	(76)	3	(111)	(282)	(466)
Operating expenses	(2,513)	(520)	(3,757)	(968)	(7,758)
Operating profit/(loss) before impairment releases/losses	1,932	296	1,081	(638)	2,671
Impairment releases/(losses)	36	54	1,160	(77)	1,173
Operating profit/(loss)	1,968	350	2,241	(715)	3,844
Total income excluding notable items (1)	4,445	762	4,886	91	10,184
Return on tangible equity (1)	na	na	na	na	9.4 %
Return on equity (1)	na	na	na	na	6.9 %
Segmental return on equity (2)	26.1 %	17.0 %	10.9 %	nm	na
Cost:income ratio	56.5 %	63.7 %	77.7 %	nm	74.4 %
Cost:income ratio (excl. litigation and conduct) (1)	54.8 %	64.1 %	75.4 %	nm	69.9 %
Customer deposits (£bn)	188.9	39.3	217.5	34.1	479.8
Average interest earning assets (£bn)	179.1	18.3	121.0	nm	327.3
Net interest margin (1)	2.27 %	2.63 %	2.46 %	nm	2.30 %
Third party customer asset rate (1,3)	2.66 %	2.36 %	2.71 %	nm	nm
Third party customer funding rate (1,3)	(0.06)%	—	(0.02)%	nm	nm

nm = not meaningful, na = not applicable.

(1) Refer to the Non-IFRS financial measures section for details of the basis of preparation.

Segmental summary income statements continued

(2) NatWest Group's CET1 target is approximately 13-14% but for the purposes of computing segmental return on equity (ROE), to better reflect the differential drivers of capital usage, segmental operating profit or loss adjusted for preference share dividends and tax, is divided by average notional equity allocated at different rates of 13% (Retail Banking), 11% (Private Banking), and 14% (Commercial & Institutional), of the period average of segmental risk-weighted assets equivalents (RWAe) incorporating the effect of capital deductions. NatWest Group return on equity is calculated using profit attributable to ordinary shareholders. Refer to the Non-IFRS financial measures section for details of the basis of preparation.
(3) Third party customer asset rate is calculated as annualised interest receivable on third-party loans to customers as a percentage of third-party loans to customers. This excludes assets of disposal groups, intragroup items, loans to banks and liquid asset portfolios. Third party customer funding rate reflects interest payable or receivable on third-party customer deposits, including interest bearing and non-interest bearing customer deposits. Intragroup items, bank deposits, debt securities in issue and subordinated liabilities are excluded from the customer funding rate calculation. Net interest margin is calculated as net interest income as a percentage of the average interest-earning assets, and excludes liquid asset buffer.
(4) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8 to the consolidated financial statements.

Segment performance

Retail Banking

Income statement	2022 £m	2021 £m	Variance £m	Variance %
Net interest income	**5,224**	4,074	1,150	28.2 %
Non-interest income	**422**	371	51	13.7 %
Total income	**5,646**	4,445	1,201	27.0 %
Other operating expenses	**(2,484)**	(2,437)	(47)	1.9 %
Litigation and conduct costs	**(109)**	(76)	(33)	43.4 %
Operating expenses	**(2,593)**	(2,513)	(80)	3.2 %
Impairment (losses)/releases	**(229)**	36	(265)	(736.1)%
Operating profit	**2,824**	1,968	856	43.5 %
Performance ratios(1)				
Return on equity	**28.6 %**	26.1 %	2.5 %	
Net interest margin	**2.74 %**	2.27 %	0.47 %	
Cost:income ratio	**45.9 %**	56.5 %	(10.6)%	
Cost: income ratio (excl. litigation and conduct)	**44.0 %**	54.8 %	(10.8)%	
Loan impairment rate	**11bps**	(2bps)	13bps	

(1) Refer to the Non-IFRS financial measures section for details of the basis of preparation and reconciliation of non-IFRS financial measures and performance metrics.

Capital and balance sheet	2022 £bn	2021 £bn	Variance £bn	Variance %
Loans to customers (amortised cost)				
- personal advances	**7.6**	7.1	0.5	7.0 %
- mortgages	**187.2**	172.8	14.4	8.3 %
- cards	**4.4**	3.8	0.6	15.8 %
Total loans to customers (amortised cost)	**199.2**	183.7	15.5	8.4 %
Loan impairment provisions	**(1.6)**	(1.5)	(0.1)	6.7 %
Net loans to customers (amortised cost)	**197.6**	182.2	15.4	8.5 %
Total assets	**226.4**	210.0	16.4	7.8 %
Customer deposits	**188.4**	188.9	(0.5)	(0.3)%
Risk-weighted assets	**54.7**	36.7	18.0	49.0 %

2022 compared with 2021

- In 2022, Retail Banking continued to pursue sustainable growth with an intelligent approach to risk, delivering a return on equity of 28.6% and an operating profit of £2,824 million.
- Retail Banking provided £4.0 billion of climate and sustainable funding and financing in 2022.
- Total income was £1,201 million, or 27.0%, higher than 2021 reflecting strong loan growth and higher transactional-related fee income, higher deposit income, supported by interest rate rises, partially offset by lower mortgage margins.
- Net interest margin was 47 basis points higher than 2021 reflecting higher deposit returns, partly offset by mortgage margin pressure.
- Operating expense of £2,593 million were £80 million, or 3.2%, higher compared with 2021. Other operating expenses were £47 million, or 1.9%, higher than 2021 primarily driven by higher fraud losses, increased investment in financial crime prevention, increased data related costs and the impact of pay awards to support colleague cost of living challenges. This was partly offset by a 4.1% headcount reduction as a result of the continued digitalisation, automation and improvement of end-to-end customer journeys.
- Impairment losses of £229 million in 2022 primarily reflect continued low level of stage 3 defaults as well as updated economic outlook scenarios partly offset by provision releases in stage 2. Provision coverage of 0.81% remains strong.
- Net loans to customers increased by £15.4 billion, or 8.5%, in 2022 mainly reflecting continued mortgage growth of £14.4 billion, with gross new mortgage lending of £41.4 billion representing flow share of around 13%. Cards balances increased by £0.6 billion and personal advances increased by £0.5 billion in 2022 reflecting continued strong customer demand.
- Customer deposits decreased by £0.5 billion, or 0.3%, in 2022 driven by higher outflows in H2 2022 as customers started to spend following relaxation of Covid-related restrictions and competition for deposit balances increased. Personal savings balances decreased by £0.9 billion partly offset by personal current accounts balance growth of £0.4 billion in 2022.
- RWAs increased by £2.6 billion, or 5.0% versus 1 January 2022 reflecting lending growth and a further increase of 1st January 2022 mortgage regulatory changes of £1.0 billion, partly offset by quality improvements. No material impact of procyclicality evident.

Segment performance continued

Private Banking

Income statement	2022 £m	2021 £m	Variance £m	Variance %
Net interest income	**777**	480	297	61.9 %
Non-interest income	**279**	336	(57)	(17.0)%
Total income	**1,056**	816	240	29.4 %
Other operating expenses	**(610)**	(523)	(87)	16.6 %
Litigation and conduct costs	**(12)**	3	(15)	(500.0)%
Operating expenses	**(622)**	(520)	(102)	19.6 %
Impairment releases	**2**	54	(52)	(96.3)%
Operating profit	**436**	350	86	24.6 %
Performance ratios (1)				
Return on equity	**24.5 %**	17.0 %	7.5 %	
Net interest margin	**4.07 %**	2.63 %	1.4 %	
Cost:income ratio	**58.9 %**	63.7 %	(4.8)%	
Cost:income ratio (excl. litigation and conduct)	**57.8 %**	64.1 %	(6.3)%	
Loan impairment rate	**(1bp)**	(29bps)	28bps	
Net new money (£bn)	**2.0**	3.0	(1.0)	

(1) Refer to the Non-IFRS financial measures section for details of the basis of preparation and reconciliation of non-IFRS financial measures and performance metrics.

Capital and balance sheet	2022 £bn	2021 £bn	Variance £bn	Variance %
Loans to customers (amortised cost)				
- personal	**2.2**	2.3	(0.1)	(4.3)%
- mortgages	**12.7**	11.8	0.9	7.6 %
- other	**4.4**	4.4	—	—
Total loans to customers (amortised cost)	**19.3**	18.5	0.8	4.3 %
Loan impairment provisions	**(0.1)**	(0.1)	—	—
Net loans to customers (amortised cost)	**19.2**	18.4	0.8	4.3 %
Total assets	**29.9**	29.9	—	—
Assets under management (AUMs) (1)	**28.3**	30.2	(1.9)	(6.3)%
Assets under administration (AUAs) (1)	**5.1**	5.4	(0.3)	(5.6)%
Assets under management and administration (AUMA) (1)	**33.4**	35.6	(2.2)	(6.2)%
Customer deposits	**41.2**	39.3	1.9	4.8 %
Loan:deposit ratio (excl. repos and reverse repos) (1)	**47 %**	47 %	—	—
Risk-weighted assets	**11.2**	11.3	(0.1)	(0.9)%

(1) Refer to the Non-IFRS financial measures section for details of basis of preparation and reconciliation of non-IFRS financial measures and performance metrics.

2022 compared with 2021

- During 2022, Private Banking provided a strong operating performance with continued balance growth, delivering a return on equity of 24.5%, 7.5 percentage points higher than 2021, and operating profit of £436 million.
- Private Banking provided £0.2 billion of climate and sustainable funding and financing in 2022. At the end of 2022, £6.5 billion of AUM are invested in funds that are on net zero trajectory and are decarbonising at an average rate of 7% per annum.
- Total income of £1,056 million was £240 million, or 29.4%, higher than 2021 driven by higher deposit and lending balances and improved deposit returns supported by interest rate rises. This represents a particularly strong performance given that Q4 2021 reflected the £54 million consideration from the sale of Adam & Company Investment Management Ltd.
- Net interest margin was 144 basis points higher than 2021 reflecting higher deposit returns and lending growth. Mortgage book margin was 163 basis points in the year.
- Operating expenses of £622 million were £102 million, or 19.6%, higher compared with 2021. Other operating expenses were £87 million, or 16.6%, higher than 2021 due to continued investment in people and technology to enhance AUMA growth propositions and increased investment in financial crime prevention.
- Impairment releases of £2 million in 2022 primarily reflect continued low level of stage 3 defaults and release of post model adjustments, partly offset by a revision of the economic outlook scenario assumptions.
- AUM net new money was £2.0 billion during 2022, which represented 5.6% of opening AUMA balances on an annualised basis, demonstrating a strong performance given volatile investment market conditions. Digital net new money was £0.3 billion, which represented 20.6% of opening Digital AUMA balances. AUMAs decreased by £2.2 billion, or 6.2%, in 2022 primarily reflecting adverse investment market movements of £4.0 billion.
- Customer deposits increased by £1.9 billion, or 4.8%, largely driven by strong savings growth, particularly during H1 2022.
- Net loans to customers increased by £0.8 billion, or 4.3%, in 2022 due to above market mortgage growth of 8%, whilst RWAs decreased by £0.1 billion, or 0.9% driven by capital optimisation initiatives.

Segment performance continued

Commercial & Institutional

Income statement	2022 £m	2021 £m	Variance £m	Variance %
Net interest income	**4,171**	2,974	1,197	40.2 %
Non-interest income	**2,242**	1,864	378	20.3 %
Total income	**6,413**	4,838	1,575	32.6 %
Other operating expenses	**(3,563)**	(3,646)	83	(2.3)%
Litigation and conduct costs	**(181)**	(111)	(70)	63.1 %
Operating expenses	**(3,744)**	(3,757)	13	(0.3)%
Impairment (losses)/releases	**(122)**	1,160	(1,282)	(110.5)%
Operating profit	**2,547**	2,241	306	13.7 %
Performance ratios (1)				
Return on equity	**12.2 %**	10.9 %	1.3 %	
Net interest margin	**3.31 %**	2.46 %	0.9 %	
Cost:income ratio	**58.4 %**	77.7 %	(19.3)%	
Cost:income ratio (excl. litigation and conduct)	**55.6 %**	75.4 %	(19.8)%	
Loan impairment rate	**9bps**	(92bps)	101bps	

(1) Refer to the Non-IFRS financial measures section for details of basis of preparation and reconciliation of non-IFRS financial measures and performance metrics.

Capital and balance sheet	2022 £bn	2021 £bn	Variance £bn	Variance %
Loans to customers (amortised cost)				
- Business Banking	**6.1**	8.0	(1.9)	(23.8)%
- Commercial Mid-market	**71.7**	72.5	(0.8)	(1.1)%
- Corporate & Institutions	**53.7**	45.4	8.3	18.3 %
Total loans to customers (amortised cost)	**131.5**	125.9	5.6	4.4 %
Loan impairment provisions	**(1.6)**	(1.7)	0.1	(5.9)%
Net loans to customers (amortised cost)	**129.9**	124.2	5.7	4.6 %
Total assets	**404.8**	425.9	(21.1)	(5.0)%
Funded assets	**306.3**	321.3	(15.0)	(4.7)%
Customer deposits	**203.3**	217.5	(14.2)	(6.5)%
Loan:deposit ratio (excl. repos and reverse repos) (1)	**64 %**	57 %	7.0 %	—
Risk-weighted assets	**103.2**	98.1	5.1	5.2 %

2022 compared with 2021

- During 2022, Commercial & Institutional delivered a strong performance with a return on equity of 12.2% and an operating profit of £2,547 million.
- Commercial & Institutional provided £20.3 billion of climate and sustainable funding and financing in 2022.
- Total income was £1,575 million, or 32.6%, higher than 2021 reflecting higher deposit returns from an improved interest rate environment, net loan growth, improved card payment fees and higher markets income. Markets income[(1)] of £698 million, was £231 million, or 49.5%, higher than 2021 reflecting stronger performance across the product suite.
- Net interest margin was 85 basis points higher than 2021 reflecting higher deposits returns.
- Operating expenses of £3,744 were £13 million, or 0.3%, lower compared with 2021. Other operating expenses were £83 million, or 2.3%, lower than 2021 reflecting cost efficiencies whilst continuing to invest in the business. A 4.2% headcount increase was a result of continuing to build capability including the take payment proposition.
- A net impairment charge of £122 million in 2022 was predominantly driven by the downward revision of economic outlook assumptions in the scenarios compared to a £1,160 million credit in 2021.
- Net loans to customers increased by £5.7 billion, or 4.6%, in 2022 due to increased term loans and funds activity within Corporate and Institutions, growth in invoice and asset finance balances within the Commercial Mid-market business partly offset by UK Government scheme balance reductions of £3.4 billion across Commercial Mid-market and Business Banking.
- Customer deposits decreased by £14.2 billion, or 6.5% in 2022 due to overall market liquidity contraction in the second half of the year following heightened levels built up during Covid in 2020 and 2021 and reductions in Corporate and Institutions, particularly non-operational accounts in Financial Institutions and professional services with relatively low margin and funding value.
- RWAs increased by £5.1 billion, or 5.2%, in 2022 primarily reflecting 1st January 2022 regulatory changes and lending growth partly offset by a reduction in counterparty credit risk, operational risk and management actions.

(1) Markets income excludes asset disposals/strategic risk reduction, own credit risk adjustments and central items.

Segment performance continued

Central items & other

Following good progress with respect to the phased withdrawal from the Republic of Ireland, announced in February 2021, Ulster Bank RoI continuing operations are now included in Central items & other.

Continuing operations	2022 £m	2021 £m	Variance £m	Variance %
Total income	**41**	330	(289)	(87.6)%
Operating expenses	**(728)**	(968)	240	(24.8)%
of which: other operating expenses	**(645)**	(686)	41	(6.0)%
of which: Ulster Bank RoI(1)	**(678)**	(482)	(196)	40.7 %
Impairment releases/(losses)	**12**	(77)	89	(115.6)%
Operating loss	**(675)**	(715)	40	(5.6)%
of which: Ulster Bank RoI	**(723)**	(414)	(309)	74.6 %

	2022 £bn	2021 £bn	Variance £bn	Variance %
Net loans to customers (amortised cost) (2)	**19.6**	34.2	(14.6)	(42.7)%
Customer deposits	**17.4**	34.1	(16.7)	(49.0)%
RWAs	**7.0**	10.9	(3.9)	(35.8)%

(1) Includes withdrawal-related direct program costs of £195 million for the year ended 31 December 2022 (£17 million – 31 December 2021) and £151 million for the quarter ended 31 December 2022 (£21 million – 30 September 2022 and £17 million - 31 December 2021).
(2) Excludes £0.5 billion of loans to customers held at fair value through profit or loss (£0.6 billion – 30 September 2022 and nil – 31 December 2021).

Funding and operating costs have been allocated to operating segments based on direct service usage, the requirement for market funding and other appropriate drivers where services span more than one segment. Residual unallocated items relate to volatile corporate items that do not naturally reside within a segment.

2022 compared with 2021

- Total income for 2022 included £369 million of gains from risk management derivatives not in hedge accounting relationships, partially offset by £202 million of losses on redemption of own debt and £88 million of bond disposal losses.
- 2021 included litigation and conduct charges of £282 million and losses on redemption of own debt of £138 million related to the repurchase of legacy instruments, partially offset by a £219 million share of gains under equity accounting for Business Growth Fund.
- 2022 operating expenses included £678 million in Ulster Bank RoI, of which £195 million were withdrawal related costs. In 2021 operating expenses in Ulster Bank RoI totalled £482 million, of which £17 million were withdrawal related costs.

Summary financial statements

NatWest Group's financial statements are prepared in accordance with IFRS. Selected data under IFRS for each of the last three years is presented below.

Summary consolidated income statement	2022 £m	2021 (1) £m	2020 (1) £m
Net interest income	**9,842**	7,535	7,389
Non-interest income	**3,314**	2,894	3,014
Total income	**13,156**	10,429	10,403
Operating expenses	**(7,687)**	(7,758)	(7,858)
Profit before impairment losses/releases	**5,469**	2,671	2,545
Impairment (losses)/releases	**(337)**	1,173	(3,098)
Operating profit/(loss) before tax	**5,132**	3,844	(553)
Tax charge	**(1,275)**	(996)	(74)
Profit/(loss) from continuing operations	**3,857**	2,848	(627)
(Loss)/profit from discontinued operations, net of tax	**(262)**	464	193
Profit/(loss) for the year	**3,595**	3,312	(434)
Attributable to:			
Ordinary shareholders	**3,340**	2,950	(753)
Preference shareholders	**—**	19	26
Paid-in equity holders	**249**	299	355
Non-controlling interests	**6**	44	(62)
	3,595	3,312	(434)

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8 to the consolidated financial statements.

Summary consolidated balance sheet	2022 £m	2021 £m	2020 £m
Cash and balances at central banks	**144,832**	177,757	124,489
Trading assets	**45,577**	59,158	68,990
Derivatives	**99,545**	106,139	166,523
Settlement balances	**2,572**	2,141	2,297
Loans to banks and customers - amortised cost	**373,479**	366,672	367,499
Other financial assets	**30,895**	46,145	55,148
Other and intangible assets	**16,292**	14,965	14,545
Assets of disposal groups	**6,861**	9,015	—
Total assets	**720,053**	781,992	799,491
Deposits	**470,759**	506,089	452,345
Trading liabilities	**52,808**	64,598	72,256
Settlement balances, derivatives, other financial liabilities and subordinated liabilities	**151,426**	160,658	222,023
Other liabilities	**5,346**	5,797	6,388
Owners' equity	**36,488**	41,796	43,860
Notes in circulation	**3,218**	3,047	2,655
Non-controlling interests	**8**	7	(36)
Total liabilities and equity	**720,053**	781,992	799,491

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Report of independent registered public accounting firm

To the Shareholders and the Board of Directors of NatWest Group plc

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of NatWest Group plc (the "Group") as of 31 December 2022 and 2021, the related consolidated income statement, statements of comprehensive income and changes in equity and cash flow statement for each of the three years in the period ended 31 December 2022, the related Accounting policies and Notes 1 to 33, and the information identified as audited in the Annual remuneration report in the Directors' remuneration report and in the Risk and capital management section (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group at 31 December 2022 and 2021 and the results of its operations and its cash flows for each of the three years in the period ended 31 December 2022, in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Group's internal control over financial reporting as of 31 December 2022, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated 24 February 2023 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on the Group's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the Group Audit Committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Estimate of expected credit loss provisions	
Description of the Matter	At 31 December 2022, the Group reported total gross loans of £377.1 billion and associated £3.4 billion of expected credit losses ('ECL'). As explained more fully in the Accounting policies, the credit risk section of the Risk and capital management section and Note 15 to the consolidated financial statements, ECL is recognised for financial instruments classified as amortised cost or fair value through other comprehensive income. Performing assets are measured at either (i) 12-month ECL (stage 1) or (ii) for those assets that are considered to have a significant increase in credit risk ('SICR'), lifetime ECL (stage 2). Defaulted assets (stage 3) are also measured at lifetime ECL. Auditing the ECL estimate was complex due to the judgmental methods used to estimate the ECL, including: accounting interpretations, modelling techniques and the selection and use of the data used to build and run modelled estimates of Probability of Default ('PD'), Loss Given Default ('LGD') and Exposure at Default ('EAD'); how to allocate assets between the stages; multiple probability weighted economic scenarios incorporated in the models; post-model adjustments applied; and the recovery and timing assumptions for individually provided stage 3 ECLs. The ongoing impact of the current uncertain geopolitical and economic outlook led to increased judgments applied in these areas.
How We Addressed the Matter in Our Audit	We evaluated the design and tested the operating effectiveness of controls over the processes relevant to ECL, including the judgements and estimates noted above. The controls we tested included, amongst others, controls over the monitoring of the criteria used to allocate assets into stages, model governance, economic forecasting, credit monitoring, individual provisions and the governance over the review of the overall ECL, including the application of model adjustments. To test the ECL provision, amongst other procedures, we performed an overall assessment of the ECL provision levels by stage to assess if they were reasonable by considering the overall credit quality of the Group's portfolios, risk profile, and the current geopolitical and macroeconomic environment, by considering industries to which the Group is exposed as well as performing peer benchmarking, where available, to assess overall staging and provision coverage levels. We evaluated the criteria used to allocate a financial asset to stage 1, 2 or 3 in accordance with IFRS 9; this included peer benchmarking to assess staging levels. We recalculated the assets in stage 1, 2 and 3 to assess if they were allocated to the appropriate stage and performed sensitivity analysis to assess the impact of different criteria on the ECL and also considered the impact of performing collective staging downgrades to higher risk industries and geographic regions. We involved modelling specialists to assist us to test a sample of ECL models, including new models implemented during the year. We involved the modelling specialists to assist in testing the assumptions, inputs and formulae used. This included a combination of assessing the model design and formulae, alternative modelling techniques, recalculating the PD, LGD and EAD, and model implementation. We also considered the results of the Group's internal model validation results. To evaluate data quality used in the ECL estimate, we agreed a sample of ECL calculation data points to source systems, including balance sheet date data used to run the models and historic loss data to monitor the models. We also tested the ECL data points input into the IT systems where the ECL calculations are performed through to the general ledger and disclosures. We involved our economic specialists to assist us to evaluate the base case and alternative economic scenarios used in the calculation of the probability weighted forward looking ECL, including evaluating probability weights and comparing these to other scenarios from a variety of external sources. We tested a sample of post-model adjustments including those applied in response to the current geopolitical and economic outlook. This included challenging the identification of retail customers vulnerable to price and rate increases and the identification of commercial sub-sectors more susceptible to inflation and supply chain issues. With our modelling specialists, we assessed the risk of bias and the completeness of these adjustments by considering the data, judgments, methodology, sensitivities, and governance of these adjustments. We recalculated and performed procedures to assess the recovery and timing scenarios, assumptions and cash flows for a sample of individually provided stage 3 ECLs ,including the alternative scenarios and the probability weights assigned, involving valuation specialists where appropriate

Impairment of goodwill	
Description of the Matter	At 31 December 2022, the Group had reported goodwill of £5.5 billion as explained in Note 17 to the consolidated financial statements. The recognition and carrying value of goodwill is based on value-in-use (VIU) models, which involve estimates of future profitability, which require significant management judgement and include the risk of management bias due to the forward-looking nature and inherent uncertainties associated with the key assumptions.
How We Addressed the Matter in Our Audit	We evaluated the design and tested the operating effectiveness of controls over the preparation and review of the forecasts, and the significant assumptions (such as the discount rate and long-term growth rate), inputs, calculations, methodologies and judgements used in the VIU models. This included testing controls over the selection of macroeconomic assumptions. To test the valuation of goodwill, amongst other procedures, we involved our economic specialists to evaluate the macroeconomic assumptions that were used in the Group's forecasts. We assessed the reasonableness of revenue and cost forecasts by evaluating the underlying business strategies, comparing to expected market trends and historical performance and considering anticipated balance sheet growth. With the assistance of our valuation specialists, we tested the reasonableness of key performance indicators used in the forecasts by comparing against peers. We evaluated the method of calculating the recoverable amount and how the discount rates and long-term growth rates used by management compared to our ranges which were developed using peer practice, external market data and calculations performed by our valuation specialists. We evaluated how management considered alternative assumptions and performed our own sensitivity and scenario analyses on certain assumptions, such as revenue and cost forecasts, discount rate and long-term growth rates and other key performance indicators on both the detailed forecasts and on an overall basis.

Provisions for customer redress, litigation and other regulatory matters	
Description of the Matter	At 31 December 2022, the Group has reported £1.1 billion of provisions for liabilities and charges, including £0.7 billion for customer redress, litigation and other regulatory matters as detailed in Notes 21 and 26 to the consolidated financial statements. Regulatory scrutiny and the continued litigious environment give rise to a high level of management judgement in determining appropriate provisions and disclosures for specific customer redress, litigation and other regulatory matters. Management judgement is needed to determine whether a present obligation exists, a provision should be recorded and how to measure any required provision in accordance with the accounting criteria set out under IAS 37. Auditing the adequacy of these provisions was complex due to management's judgement in the selection and use of assumptions, which included expected claim rates, legal costs, and the timing of settlement, to determine if a present obligation exists, an outflow is probable and can be estimated, and adequately disclosed.
How We Addressed the Matter in Our Audit	We evaluated the design and tested the operating effectiveness of controls over the identification, estimation, monitoring and disclosure of provisions related to customer redress, litigation and other regulatory matters. We received confirmations from the Group's external legal counsel for matters to evaluate the existence of the obligation and management's estimate of the outflow at year-end. Amongst other procedures, we also conducted inquiries with internal legal counsel over the existence of the legal obligations and related provisions. Where appropriate, we involved our conduct risk and forensics specialists to assist us in evaluating the assumptions, including expected claim rates, legal costs, and the timing of settlement, to determine the resulting provisions for specific customer redress, litigation and other regulatory matters. We evaluated the disclosures provided on customer redress, litigation and other regulatory matters to assess whether they complied with accounting standards.

Valuation of financial instruments with higher risk characteristics including related income from trading activities	
Description of the Matter	As reported in Note 11 to the financial statements, as at 31 December 2022, the Group held financial instruments with higher risk characteristics. This included (but is not limited to) reported level 3 assets of £2.3 billion and level 3 liabilities of £1.0 billion whose value is dependent on unobservable inputs. The valuation of those financial instruments with higher risk characteristics involved both significant judgement and the risk of inappropriate revenue recognition through incorrect pricing as outlined below. Auditing management's judgements and assumptions used in the estimation of the fair value of these instruments was complex due to the judgemental nature of valuation techniques, modelling assumptions, significant illiquid inputs and certain valuation adjustments. Complex models were used to value exotic features in certain interest rate swaps and options and foreign exchange options. Judgmental unobservable inputs included discount rates associated with derivatives with complex collateral arrangements and illiquid loans. Judgmental fair value adjustments included Funding Valuation Adjustments (FVA), Credit Valuation Adjustments (CVA), and material product and deal specific adjustments on long-dated derivative portfolios.
How We Addressed the Matter in Our Audit	We evaluated the design and tested the operating effectiveness of controls relating to financial instrument valuation and related income statement measurement, which included controls over the bank's independent price verification process, valuation models governance, collateral management and income statement analysis. Amongst other procedures, we involved our financial instrument valuation and modelling specialists to assist us in testing complex model-dependent valuations by performing independent revaluation to assess the appropriateness of models and the adequacy of both assumptions and inputs. We also independently re-priced a sample of instruments that had been valued using illiquid pricing inputs, using alternative pricing sources, where available, to evaluate management's valuation. In addition, we compared fair value adjustment methodologies against current market practice. With the assistance of our specialists we revalued a sample of counterparty level FVAs and CVAs, comparing funding spreads to third party data and independently assessed illiquid CVA inputs. We also tested material product and deal specific adjustments on long-dated derivative portfolios and assessed other information, including trading activity, asset disposals and collateral discrepancies, to evaluate modelling assumptions and inputs.

/s/ Ernst & Young LLP
We have served as the Group's auditors since 2016.
London, United Kingdom
24 February 2023

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of NatWest Group plc

Opinion on Internal Control over Financial Reporting

We have audited NatWest Group plc's (the "Group") internal control over financial reporting as of 31 December 2022, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of 31 December 2022, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Group as of 31 December 2022 and 2021, the related consolidated income statement, statements of comprehensive income and changes in equity and cash flow statement for each of the three years in the period ended 31 December 2022, the related Accounting policies and Notes 1 to 33, and the information identified as audited in the Annual remuneration report in the Directors' remuneration report and in the Risk and capital management section and our report dated 24 February 2023 expressed an unqualified opinion thereon.

Basis for Opinion

The Group's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Group's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, 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 that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP
We have served as the Group's auditors since 2016.
London, United Kingdom
24 February 2023

Consolidated income statement for the year ended 31 December 2022

	Note	2022 £m	2021 (1) £m	2020 (1) £m
Interest receivable		**12,637**	9,234	9,711
Interest payable		**(2,795)**	(1,699)	(2,322)
Net interest income	1	**9,842**	7,535	7,389
Fees and commissions receivable		**2,915**	2,694	2,704
Fees and commissions payable		**(623)**	(574)	(722)
Trading income		**1,133**	323	1,125
Other operating income		**(111)**	451	(93)
Non-interest income	2	**3,314**	2,894	3,014
Total income		**13,156**	10,429	10,403
Staff costs		**(3,716)**	(3,676)	(3,878)
Premises and equipment		**(1,112)**	(1,133)	(1,222)
Other administrative expenses		**(2,026)**	(2,026)	(1,845)
Depreciation and amortisation		**(833)**	(923)	(913)
Operating expenses	3	**(7,687)**	(7,758)	(7,858)
Profit before impairment losses/releases		**5,469**	2,671	2,545
Impairment (losses)/releases	15	**(337)**	1,173	(3,098)
Operating profit/(loss) before tax		**5,132**	3,844	(553)
Tax charge	7	**(1,275)**	(996)	(74)
Profit/(loss) from continuing operations		**3,857**	2,848	(627)
(Loss)/profit from discontinued operations, net of tax (3)	8	**(262)**	464	193
Profit/(loss) for the year		**3,595**	3,312	(434)
Attributable to:				
Ordinary shareholders		**3,340**	2,950	(753)
Preference shareholders		**—**	19	26
Paid-in equity holders		**249**	299	355
Non-controlling interests		**6**	44	(62)
		3,595	3,312	(434)
Earnings per ordinary share - continuing operations	9	**36.5p**	23.0p	(8.4p)
Earnings per ordinary share - discontinued operations	9	**(2.7p)**	4.3p	1.7p
Total earnings per share attributable to ordinary shareholders - basic	9	**33.8p**	27.3p	(6.7p)
Earnings per ordinary share - fully diluted continuing operations	9	**36.2p**	22.9p	(8.4p)
Earnings per ordinary share - fully diluted discontinued operations	9	**(2.6p)**	4.3p	1.7p
Total earnings per share attributable to ordinary shareholders - fully diluted	9	**33.6p**	27.2p	(6.7p)

(1) Comparative results have been re-presented from those previously published to reclassify certain items as discontinued operations as described in Note 8 to the consolidated financial statements.
(2) At the General Meeting and Class Meeting on 25 August 2022, the shareholders approved the proposed special dividend and share consolidation. On 30 August the issued ordinary share capital was consolidated in the ratio of 14 existing shares for 13 new shares. The average number of shares and earnings per share have been adjusted retrospectively.
(3) The results of discontinued operations, comprising the post-tax profit, is shown as a single amount on the face of the income statement. An analysis of this amount is presented in Note 8 to the consolidated financial statements.

The accompanying notes on pages 41 to 105, the Accounting policies on pages 32 to 40 and the audited sections of the Financial review on pages 6 to 18 and Risk and capital management sections on pages 162 to 269 of Exhibit 15.2 form an integral part of these financial statements.

Consolidated statement of comprehensive income for the year ended 31 December 2022

	2022 £m	2021 £m	2020 £m
Profit/(loss) for the year	**3,595**	3,312	(434)
Items that do not qualify for reclassification			
Remeasurement of retirement benefit schemes [1]	**(840)**	(669)	4
Changes in fair value of credit in financial liabilities designated at FVTPL	**50**	(29)	(52)
FVOCI financial assets	**59**	13	(64)
Tax	**187**	164	42
	(544)	(521)	(70)
Items that do qualify for reclassification			
FVOCI financial assets	**(457)**	(100)	44
Cash flow hedges [2]	**(3,277)**	(848)	271
Currency translation	**241**	(382)	276
Tax	**1,067**	213	(89)
	(2,426)	(1,117)	502
Other comprehensive (loss)/income after tax	**(2,970)**	(1,638)	432
Total comprehensive income/(loss) for the year	**625**	1,674	(2)
Attributable to:			
Ordinary shareholders	**370**	1,308	(338)
Preference shareholders	**—**	19	26
Paid-in equity holders	**249**	299	355
Non-controlling interests	**6**	48	(45)
	625	1,674	(2)

(1) Following the purchase of ordinary shares from UKGI in Q1 2022, NatWest Group contributed £500 million to its main pension scheme in line with the memorandum of understanding announced on 17 April 2018. After tax relief, this contribution reduced total equity by £365 million. Other material movements came from asset underperformance relative to movements in the schemes' liabilities over the year. In line with our policy, the present value of defined benefit obligations and the fair value of plan assets at the end of the reporting period, are assessed to identify significant market fluctuations and one-off events since the end of the prior financial year.

(2) The unrealised losses on cash flow hedge reserves is mainly driven by deferment of losses on GBP net received fixed swaps as interest rates have increased.

The accompanying notes on pages 41 to 105, the Accounting policies on pages 32 to 40 and the audited sections of the Financial review on pages 6 to 18 and Risk and capital management sections on pages 162 to 269 of Exhibit 15.2 form an integral part of these financial statements.

Consolidated balance sheet as at 31 December 2022

	Note	2022 £m	2021 £m
Assets			
Cash and balances at central banks	10	**144,832**	177,757
Trading assets	13	**45,577**	59,158
Derivatives	14	**99,545**	106,139
Settlement balances		**2,572**	2,141
Loans to banks - amortised cost	10	**7,139**	7,682
Loans to customers - amortised cost	10	**366,340**	358,990
Securities subject to repurchase agreements		**2,901**	11,746
Other financial assets excluding securities subject to repurchase agreements		**27,994**	34,399
Other financial assets	16	**30,895**	46,145
Intangible assets	17	**7,116**	6,723
Other assets	18	**9,176**	8,242
Assets of disposal groups	8	**6,861**	9,015
Total assets		**720,053**	781,992
Liabilities			
Bank deposits	10	**20,441**	26,279
Customer deposits	10	**450,318**	479,810
Settlement balances		**2,012**	2,068
Trading liabilities	13	**52,808**	64,598
Derivatives	14	**94,047**	100,835
Other financial liabilities	19	**49,107**	49,326
Subordinated liabilities	20	**6,260**	8,429
Notes in circulation		**3,218**	3,047
Other liabilities	21	**5,346**	5,797
Total liabilities		**683,557**	740,189
Ordinary shareholders' interests		**32,598**	37,412
Other owners' interests		**3,890**	4,384
Owners' equity	22	**36,488**	41,796
Non-controlling interests		**8**	7
Total equity		**36,496**	41,803
Total liabilities and equity		**720,053**	781,992

The accompanying notes on pages 41 to 105, the Accounting policies on pages 32 to 40 and the audited sections of the Financial review on pages 6 to 18 and Risk and capital management sections on pages 162 to 269 of Exhibit 15.2 form an integral part of these financial statements.

The accounts were approved by the Board of directors on 16 February 2023 and signed on its behalf by:

Howard Davies	Alison Rose-Slade DBE	Katie Murray	NatWest Group plc
Chairman	Group Chief Executive Officer	Group Chief Financial Officer	Registered No. SC45551

Consolidated statement of changes in equity for the year ended 31 December 2022

	2022 £m	2021 £m	2020 £m
Called-up share capital - at 1 January	**11,468**	12,129	12,094
Ordinary shares issued	**—**	37	35
Share cancellation (1,2)	**(929)**	(698)	—
At 31 December	**10,539**	11,468	12,129
Paid-in equity - at 1 January	**3,890**	4,999	4,058
Reclassified (3)	**—**	(2,046)	(1,277)
Issued	**—**	937	2,218
At 31 December	**3,890**	3,890	4,999
Share premium - at 1 January	**1,161**	1,111	1,094
Ordinary shares issued	**—**	50	17
At 31 December	**1,161**	1,161	1,111
Merger reserve - at 1 January and 31 December	**10,881**	10,881	10,881
FVOCI reserve - at 1 January	**269**	360	138
Unrealised (losses)/gains (6)	**(570)**	32	76
Realised losses/(gains) (4)	**59**	(122)	152
Tax	**140**	(1)	(6)
At 31 December	**(102)**	269	360
Cash flow hedging reserve - at 1 January	**(395)**	229	35
Amount recognised in equity (7)	**(2,973)**	(687)	321
Amount transferred from equity to earnings	**(304)**	(161)	(50)
Tax	**901**	224	(77)
At 31 December	**(2,771)**	(395)	229
Foreign exchange reserve - at 1 January	**1,205**	1,608	1,343
Retranslation of net assets	**512**	(484)	297
Foreign currency (losses)/gains on hedges of net assets	**(266)**	88	(55)
Tax	**32**	(17)	6
Recycled to profit or loss on disposal of businesses	**(5)**	10	17
At 31 December	**1,478**	1,205	1,608
Capital redemption reserve - at 1 January	**722**	—	—
Share cancellation (1,2)	**929**	698	—
Redemption of preference shares	**—**	24	—
At 31 December	**1,651**	722	—
Retained earnings - at 1 January	**12,966**	12,567	13,946
Profit/(loss) attributable to ordinary shareholders and other equity owners			
- continuing operations	**3,851**	2,804	(565)
- discontinued operations	**(262)**	464	193
Equity preference dividends paid	**—**	(19)	(26)
Paid-in equity dividends paid	**(249)**	(299)	(355)
Ordinary dividends paid	**(1,205)**	(693)	—
Special dividends paid	**(1,746)**	—	—
Shares repurchased (1,2)	**(2,054)**	(1,423)	—
Unclaimed dividends	**—**	—	2
Redemption of preference shares (8)	**(750)**	(24)	—
Redemption/reclassification of paid-in equity (3)			
- gross	**—**	134	(358)
- tax	**(36)**	16	3
Realised gains/(losses) on FVOCI equity shares			
- gross	**113**	3	(248)
- tax	**(9)**	—	—
Remeasurement of retirement benefit schemes			
- gross (5)	**(840)**	(669)	4
- tax (5)	**192**	168	22
Changes in fair value of credit in financial liabilities designated at FVTPL			
- gross	**50**	(29)	(52)
- tax	**(2)**	3	8
Employee share schemes	**6**	8	(11)
Share-based payments			
- gross	**(7)**	(55)	5
- tax	**1**	10	(1)
At 31 December	**10,019**	12,966	12,567

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

	2022 £m	2021 £m	2020 £m
Own shares held - at 1 January	**(371)**	(24)	(42)
Shares vested under employee share schemes	**113**	36	95
Own shares acquired (1)	**—**	(383)	(77)
At 31 December	**(258)**	(371)	(24)
Owners' equity at 31 December	**36,488**	41,796	43,860
Non-controlling interests - at 1 January	**7**	(36)	9
Currency translation adjustments and other movements	**—**	4	17
Profit/(loss) attributable to non-controlling interests	**6**	44	(62)
Dividends paid	**(5)**	(5)	—
At 31 December	**8**	7	(36)
Total equity at 31 December	**36,496**	41,803	43,824
Attributable to:			
Ordinary shareholders	**32,598**	37,412	38,367
Preference shareholders	**—**	494	494
Paid-in equity holders	**3,890**	3,890	4,999
Non-controlling interests	**8**	7	(36)
	36,496	41,803	43,824

(1) In March 2022, there was an agreement with HM Treasury to buy 549.9 million (March 2021 - 591 million) ordinary shares in NatWest Group plc from UK Government Investments Ltd, at 220.5 pence per share (March 2021 - 190.5 pence per share) for the total consideration of £1.22 billion (March 2021 - £1.13 billion). NatWest Group cancelled all 549.9 million of the purchased ordinary shares (March 2021 - NatWest Group cancelled 391 million of the purchased ordinary shares and held the remaining 200 million in own shares held). The nominal value of the share cancellation has been transferred to the capital redemption reserve.
(2) NatWest Group plc repurchased and cancelled 379.3 million (2021 - 310.8 million) shares for total consideration of £829.3 million (2022 £676.2 million) excluding fees as part of the On Market Share Buyback Programme which has now concluded. The nominal value of the share cancellations has been transferred to the capital redemption reserve.
(3) In July 2021, paid-in equity was reclassified to liabilities as the result of a call in August 2021 of US$2.65 billion AT1 capital notes.
(4) In 2020, the completion of the Alawwal bank merger resulted in the derecognition of the associate investment in Alawwal bank and recognition of a new investment in SABB held at fair value through other comprehensive income (FVOCI).
(5) Following the purchase of ordinary shares from UKGI in Q1 2022, NatWest Group contributed £500 million to its main pension scheme in line with the memorandum of understanding announced on 17 April 2018. After tax relief, this contribution reduced total equity by £365 million. Other material movements came from asset underperformance relative to movements in the schemes' liabilities over the year. In line with our policy, the present value of defined benefit obligations and the fair value of plan assets at the end of the reporting period, are assessed to identify significant market fluctuations and one-off events since the end of the prior financial year.
(6) Certain assets within this category have been hedged with derivatives which are not in an accounting hedge relationship. The effect of this creates a temporary difference between other comprehensive income and the income statement due to the difference in recognition criteria. This temporary difference is expected to reverse through the income statement over the duration of the hedge.
(7) The unrealised losses on cash flow hedge reserves is mainly driven by deferment of losses on GBP net received fixed swaps as interest rates have increased.
(8) Following an announcement of a Regulatory Call in February 2022, the Series U preference shares were reclassified to liabilities. A £254 million loss was recognised in retained earnings as a result of FX unlocking.

The accompanying notes on pages 41 to 105, the Accounting policies on pages 32 to 40 and the audited sections of the Financial review on pages 6 to 18 and Risk and capital management sections on pages 162 to 269 of Exhibit 15.2 form an integral part of these financial statements.

Consolidated cash flow statement for the year ended 31 December 2022

	Note	2022 £m	2021 £m	2020 £m
Cash flows from operating activities				
Operating profit/(loss) before tax from continuing operations (1)		**5,132**	3,844	(553)
Operating (loss)/profit before tax from discontinued operations (1)		**(262)**	467	202
Adjustments for:				
Impairment losses/(releases)		**266**	(1,335)	3,242
Amortisation of discounts and premiums of other financial assets		**6**	203	267
Depreciation and amortisation		**833**	923	914
Change in fair value taken to profit or loss of other financial assets		**1,267**	1,771	(1,474)
Change in fair value taken to profit or loss on other financial liabilities and subordinated liabilities		**(2,400)**	(1,083)	962
Elimination of foreign exchange differences		**10**	2,446	(2,497)
Other non-cash items		**(261)**	(154)	(2)
Income receivable on other financial assets		**(591)**	(581)	(518)
Loss/(profit) on sale of other financial assets		**172**	(118)	(96)
(Profit)/loss on disposal of subsidiaries and associates		**—**	(48)	16
Share of loss/(profit) of associates		**30**	(216)	30
Loss/(profit) on sale of other assets and net assets/liabilities		**154**	23	(16)
Interest payable on MRELs and subordinated liabilities		**1,103**	964	1,182
Loss on redemption of own debt		**161**	145	324
Charges and releases on provisions		**248**	478	296
Defined benefit pension schemes		**205**	215	215
Net cash flows from trading activities		**6,073**	7,934	2,494
Decrease in trading assets		**14,991**	7,751	4,147
Decrease/(increase) in derivative assets		**3,621**	59,697	(16,173)
(Increase)/decrease in settlement balance assets		**(431)**	156	2,090
Increase in loans to banks		**(202)**	(252)	(554)
(Increase)/decrease in loans to customers		**(7,628)**	2,721	(33,748)
(Increase)/decrease in other financial assets		**(328)**	(128)	221
(Increase)/decrease in other assets		**(255)**	(57)	8
Increase in assets of disposal groups		**(4,117)**	(9,015)	—
(Decrease)/increase in bank deposits		**(5,838)**	5,673	113
(Decrease)/increase in customer deposits		**(29,492)**	48,071	62,492
Decrease in settlement balance liabilities		**(56)**	(350)	(1,652)
Decrease in trading liabilities		**(11,790)**	(7,658)	(1,693)
(Decrease)/increase in derivative liabilities		**(6,788)**	(59,870)	13,826
Increase/(decrease) in other financial liabilities		**989**	938	(1,085)
Increase in notes in circulation		**171**	392	546
Decrease in other liabilities		**(1,294)**	(1,463)	(1,723)
Changes in operating assets and liabilities		**(48,447)**	46,606	26,815
Income taxes paid		**(1,223)**	(856)	(214)
Net cash flows from operating activities (2,3)		**(43,597)**	53,684	29,095

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

	Note	2022 £m	2021 £m	2020 £m
Cash flows from investing activities				
Sale and maturity of other financial assets		**36,975**	16,859	25,952
Purchase of other financial assets		**(23,510)**	(10,150)	(18,825)
Income received on other financial assets		**659**	581	518
Net movement in business interests and intangible assets	27	**5,420**	(3,489)	(70)
Sale of property, plant and equipment		**154**	165	348
Purchase of property, plant and equipment		**(639)**	(901)	(376)
Net cash flows from investing activities		**19,059**	3,065	7,547
Cash flows from financing activities				
Movement in MRELs		**(1,974)**	2,736	636
Movement in subordinated liabilities		**(3,419)**	(3,452)	(2,381)
Share repurchased		**(2,054)**	(1,806)	(2)
Dividends paid		**(3,205)**	(1,016)	(381)
Issue of paid-in equity		**—**	937	2,218
Net cash flows from financing activities	28	**(10,652)**	(2,601)	90
Effects of exchange rate changes on cash and cash equivalents		**2,933**	(2,641)	1,879
Net (decrease)/increase in cash and cash equivalents		**(32,257)**	51,507	38,611
Cash and cash equivalents at 1 January		**190,706**	139,199	100,588
Cash and cash equivalents at 31 December	29	**158,449**	190,706	139,199

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8 to the consolidated financial statements.
(2) Includes interest received of £12,638 million (2021 - £9,696 million, 2020 - £10,007 million) and interest paid of £2,357 million (2021 - £1,868 million, 2020 - £2,414 million).
(3) The total cash outflow for leases is £170 million (2021: £195 million; 2020: £220 million), including payment of principal amount of £145 million (2021: £164 million; 2020: £179 million) which are included in the operating activities.

The accompanying notes on pages 41 to 105, the Accounting policies on pages 32 to 40 and the audited sections of the Financial review on pages 6 to 18 and Risk and capital management sections on pages 162 to 269 of Exhibit 15.2 form an integral part of these financial statements.

Accounting policies

This section includes the basis of preparation, critical and significant accounting policies used to prepare the financial statements.

Our accounting policies are the specific principles, bases, conventions, rules, and practices we apply in preparing and presenting the financial statements. Further information is provided where judgment and estimation is applied to critical accounting policies and key sources of estimation uncertainty.

Future accounting developments details new, or amendments to existing, accounting standards, when they are effective from and where we are assessing their impact on future financial statements.

1. Presentation of financial statements

NatWest Group plc is incorporated in the UK and registered in Scotland. The financial statements are presented in the functional currency, pounds sterling.

The audited financial statements include audited sections of the Risk and capital management section. The directors have prepared the financial statements on a going concern basis after assessing the principal risks, forecasts, projections and other relevant evidence over the twelve months from the date the financial statements are approved (see the Report of the directors) and in accordance with UK adopted International Accounting Standards (IAS), and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The critical and significant 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 2022 on our financial statements was immaterial.

Our consolidated financial statements incorporate the results of NatWest Group plc and the entities it controls. Control arises when we have the power to direct the activities of an entity so as to affect the return from the entity. Control is assessed by reference to our ability to enforce our will on the other entity, typically through voting rights. The consolidated financial statements are prepared under consistent accounting policies.

On acquisition of a subsidiary, the identifiable assets, liabilities and contingent liabilities are included in the consolidated financial statements at their fair value. A subsidiary is included in the consolidated financial statements from the date it is controlled by us until the date we cease to control it through a sale or a significant change in circumstances. Changes in our interest in a subsidiary that does not result in us ceasing to control that subsidiary are accounted for as equity transactions.

We apply accounting for associates and joint arrangements (including joint ventures) to entities where we have significant influence, but not control, over the operating and financial policies. We assess significant influence by reference to a presumption of voting rights of more than 20%, but less than 50%, supplemented by a qualitative assessment of substantive rights which include representation at the Board of Directors, significant exchange of managerial personnel or technology amongst others. Joint ventures are arrangements where we have joint control and rights to the net assets of the entity.

Investments in associates and joint ventures are recorded upon initial recognition at cost, increased or decreased each period by the share of the subsequent levels of profit or loss, and other changes in equity are considered in line with their nature.

Transactions and balances between Group companies are eliminated in the consolidated financial statements to show only those transactions and balances external to us.

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

How Climate risk affects our accounting judgments and estimates Business planning

Key financial estimates are based on management's latest five-year revenue and cost forecasts. The outputs from this forecast affect forward-looking accounting estimates. Measurement of deferred tax and expected credit losses are highly sensitive to reasonably possible changes in those anticipated conditions. In 2022, our scenario planning supported the development of NatWest Group's initial iteration climate transition plan, including the assessment of climate-related risks and opportunities.

- The initial iteration of our Climate transition plan includes an assessment of:
  - changes in business operations, products and services to support customer decarbonisation;
  - financial plans linked to business operations and strategy. During 2022, the financial planning process has been enhanced to incorporate climate related opportunities included in the climate transition plan. In 2023, we will link specific actions that are needed to align to our climate ambitions into the financial forecasts.
  - development in UK Government policies, aligned with the Committee on Climate Change Sixth carbon Budget published in 2021. We also assume certain broader policy responses and technological innovation to enable the wider transition of the economy.
- There remains considerable uncertainty regarding this policy response, including the effect of wider geo-political uncertainty on governmental ambitions regarding climate transition and the effect of decarbonisation on wider economic growth, technology development and customer behaviours.

Information used in other accounting estimates

We make use of reasonable and supportable information to make accounting judgments 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 judgments and estimates for the current period. Some physical and transition risks can manifest in the shorter term. The following items represent the most significant effects:

- The classification of financial instruments linked to climate, or other sustainability indicators: consideration is given to whether the effect of climate related terms prevent the instrument cashflows being solely payments of principal and interest.
- The measurement of expected credit loss considers the ability of borrowers to make payments as they fall due. Future cashflows are discounted, so long dated cashflows are less likely to affect current expectations on credit loss. 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.
- The use of market indicators as inputs to fair value is assumed to include current information and knowledge regarding the effect of climate risk.

Effect of climate change in the estimation of expected credit loss

Since the implementation of IFRS 9 in January 2018 loan losses reflect expected credit losses taking account of relevant and reliable forward looking information. We are evaluating the effect of the physical and transition consequences of climate change on our experience of loan loss. We use available information regarding the effect of climate transition policy largely driven by carbon prices as an adjustment to macroeconomic factors that are used as inputs to the models that generate PD and LGD outcomes, which are key inputs to the ECL calculation. The determination of whether specific loss drivers and climate events generate specific losses is ongoing and is necessary to determine how sensitive changes in ECL could be to climate inputs. As at 31 December 2022, our quantification of the impact due to physical risk and how other climate risks may impact the ECL is ongoing.

An impact assessment on how climate risk factors may require adjustment in our IFRS 9 model suite has also not been finalised. We judged that this information was not sufficiently complete to make a reliable estimate and given the immaterial change in ECL it indicated, determined it was not appropriate to adjust ECL.

When this information is reliable, possibly during 2023, it could be used in our ECL calculation. A key part of this is determining that any adjustment resulting from the inclusion of new climate-related inputs does not double count or omit credit losses arising from other inputs. We will continue to develop our data, models and methodologies relating to climate evaluation and market practice will continue to evolve and this will affect the estimation of climate effect in ECL on an ongoing basis. We expect that the effect of climate risks on ECL will increase as government policy, organisations and individuals react to changes in climate as well as the probable increased occurrence of climate-related loss events (such as flooding and wildfire).

2. 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

Key financial estimates are based on management's latest five-year revenue and cost forecasts. Changes in judgments and assumptions could result in a material adjustment to those estimates in future reporting periods. Consideration of this source of estimate uncertainty has been set out in the notes below (as applicable).

Policy	Judgment	Estimate	Further information
Deferred tax	Determination of whether sufficient taxable profits will be generated in future years to recover DTA.	Our estimates are based on the five-year revenue and cost forecasts (which include inherent uncertainties).	Note 7
Fair value – financial instruments	Classification of a fair value instrument as level 3, where the valuation is driven by unobservable inputs.	Estimation of the fair value, where it is reasonably possible to have alternative assumptions in determining the FV.	Note 11
Loan impairment provisions	Definition of default against which to apply PD, LGD and EAD models. 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 selection of multiple economic scenarios) and disclosures include sensitivities to show impact on other reasonably possible scenarios.	Note 15
Provisions for liabilities and charges	Determination of whether a present obligation exists in respect of customer redress, litigation and other regulatory, property and other provisions. Legal proceedings often require a high degree of judgment and these are likely to change as the matter progresses.	Provisions remain sensitive to the assumptions used in the estimate. We consider a wide range of possible outcomes. It is often not practical to meaningfully quantify ranges of possible outcomes, given the uncertainties involved.	Note 21

2.1. Deferred tax

Deferred tax is the 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. 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 not recognised on temporary differences that arise from initial recognition of an asset or a liability in a transaction (other than a business combination) that at the time of the transaction affects neither accounting nor taxable profit or loss. 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 assets and liabilities are offset where we have a legally enforceable right to offset and where they relate to income taxes levied by the same taxation authority either on an individual NatWest Group company or on NatWest Group companies in the same tax group that intend, in future periods, to settle current tax liabilities and assets on a net basis or on a gross basis simultaneously.

Deferred tax asset recoverability is based on the level of supporting offsetable deferred tax liabilities we have and of our future taxable profits. These future taxable profits are based on our five-year revenue and cost forecasts and the expectation of long term economic growth beyond this period. The five-year forecast takes account of management's current expectations on competitiveness and profitability. The long term growth rate reflects external indicators which will include market expectations on climate risk. We do not consider any additional adjustments to this indicator.

2.2. Fair value – financial instruments

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.

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.

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

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

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

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 stewardship and credit risk appetite 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 policies for control, associates and joint ventures apply.

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

The typical time frames from initial impairment to write-off for our collectively assessed portfolios are:

- Retail mortgages: write-off usually occurs within five years, or earlier, when an account is closed, but can be longer where the customer engages constructively;

- Credit cards: the irrecoverable amount is typically written off after twelve arrears cycles or at four years post default any remaining amounts outstanding are written off;
- Overdrafts and other unsecured loans: write-off occurs within six years;
- Commercial loans: write-offs are determined in the light of individual circumstances; and Business loans are generally written off within five years.

2.4. Provisions and contingent liabilities

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

Provision is made for restructuring costs, including the costs of redundancy, when we have a constructive obligation. An obligation exists when we have a detailed formal plan for the restructuring and have raised a valid expectation in those affected either by starting to implement the plan or by announcing its main features.

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

Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events, or present obligations arising from past events that are not recognised because either an outflow of economic benefits is not probable, or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised but information about them is disclosed unless the possibility of any outflow of economic benefits in settlement is remote.

3. Significant accounting polices

3.1. Revenue recognition

Interest receivable and payable are recognised in the income statement using the effective interest rate method for: all financial instruments measured at amortised cost; debt instruments measured as fair value through other comprehensive income; and the effective part of any related accounting hedging instruments. Finance lease income is recognised at a constant periodic rate of return before tax on the net investment on the lease.

Other interest relating to financial instruments measured at fair value is recognised as part of the movement in fair value and is reported in 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.

3.2. Discontinued operations, Held for sale and Disposal group

The results of discontinued operations (comprising the post-tax profit or loss of discontinued operations and the post-tax results of either the ongoing measurement at fair value less costs to sell or on disposal of the discontinued operation) are excluded from the results of continuing operations and are presented as a single amount as profit/(loss) from discontinued operations, net of tax in the income statement. Comparatives are represented for the income statement, cash flow statement, statement of changes in equity and related notes.

An asset or disposal group (assets and liabilities) is classified as held for sale if we will recover its carrying amount principally through a sale transaction rather than through continuing use. These are measured at the lower of its carrying amount or fair value less cost to sell unless scoped out of IFRS 5 in which case the existing measurement provisions of IFRS apply. These are presented as single amounts; comparatives are not represented.

3.3. Staff costs

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

Variable compensation that is settled in cash or debt instruments is charged to the income statement on a straight-line basis over the period during which services are provided, taking account of forfeiture and clawback criteria. The value of employee services received in exchange for NatWest Group plc shares and share options is recognised as an expense over the vesting period, subject to deferral, clawback, cancelation and forfeiture criteria with a corresponding increase in equity. The fair value of shares granted is the market price adjusted for the expected effect of dividends as employees are not entitled to dividends until shares are vested.

The fair value of options granted is determined using option pricing models to estimate the numbers of shares likely to vest. These consider the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the share price over the life of the option and other relevant factors such as the dividend yield.

Defined contribution pension scheme

A scheme where we pay fixed contributions and there is no legal or constructive obligation to pay further contributions or benefits. Contributions are recognised in the income statement as employee service costs accrue.

Defined benefit pension scheme

A scheme that defines the benefit an employee will receive on retirement and is dependent on one or more factors such as age, salary, and years of service. The net of the recognisable scheme assets and obligations is reported on the balance sheet in other assets or other liabilities. The defined benefit obligation is measured on an actuarial basis. The charge to the income statement for pension costs (mainly the service cost and the net interest on the net defined benefit asset or liability) is recognised in operating expenses.

Actuarial gains and losses (i.e. gains and/or losses on re-measuring the net defined benefit asset or liability due to changes in actuarial measurement assumptions) are recognised in other comprehensive income in full in the period in which they arise, and not subject to recycling to the income statement.

The difference between scheme assets and scheme liabilities, the net defined benefit asset or liability, is recognised on the balance sheet if the criteria of the asset ceiling test are met. This requires the net defined benefit surplus to be limited to the present value of any economic benefits available to us in the form of refunds from the plan or reduced contributions to it.

We will recognise a liability where a minimum funding requirement exists for any of our defined benefit pension schemes. This reflects agreed minimum funding and the availability of a net surplus as determined as described above. When estimating the liability for minimum funding requirements we only include contributions that are substantively or contractually agreed and do not include contingent and discretionary features, including dividend-linked contributions or contributions subject to contingent events requiring future verification.

We will recognise a net defined benefit asset when the net defined benefit surplus can generate a benefit in the form of a refund or reduction in future contributions to the plan. The net benefit pension asset is recognised at the present value of the benefits that will be available to us excluding interest and the effect of the asset ceiling (if any, excluding interest). Changes in the present value of the net benefit pension asset are recognised immediately in other comprehensive income.

In instances where Trustees have the ability to declare augmented benefits to participants, we do not recognise a defined benefit pension asset and write-off the surplus immediately in other comprehensive income.

3.4. Intangible assets and goodwill

Intangible assets are identifiable non-monetary assets without physical substance acquired by us, and are stated at cost less accumulated amortisation and impairment losses. Amortisation is a method to spread the cost of such assets over time in the income statement.

This is charged to the income statement over the assets' estimated useful economic lives using methods that best reflect the pattern of economic benefits.

The estimated useful economic lives are:

Computer software	3 to 12 years
Other acquired intangibles	5 to 10 years

Expenditure on internally generated goodwill and brands is charged to the income statement as incurred.

Direct costs relating to the development of internal-use computer software are reported on the balance sheet after technical feasibility and economic viability have been established.

These direct costs include payroll, the costs of materials and services, and directly attributable overheads. Capitalisation of costs ceases when the software can operate as intended.

During and after development, accumulated costs are reviewed for impairment against the benefits that the software is expected to generate. Costs incurred prior to the establishment of technical feasibility and economic viability are expensed to the income statement as incurred, as are all training costs and general overheads. The costs of licences to use computer software that are expected to generate economic benefits beyond one year are also reported on the balance sheet

Goodwill on the acquisition of a subsidiary is the excess of the fair value of the consideration paid, the fair value of any existing interest in the subsidiary and the amount of any non-controlling interest measured either at fair value or at its share of the subsidiary's net assets over the net fair value of the subsidiary's identifiable assets, liabilities, and contingent liabilities.

Goodwill is measured at initial cost less any subsequent impairment losses. The gain or loss on the disposal of a subsidiary includes the carrying value of any related goodwill when such transactions occur.

3.5. Impairment of non-financial assets

At each balance sheet date, we assess whether there is any indication that its intangible assets or property, plant and equipment are impaired. If any such indication exists, we estimate the recoverable amount of the asset and compares it to its balance sheet value to calculate if an impairment loss should be charged to the income statement. The balance sheet value of the asset is reduced by the amount of the impairment loss. A reversal of an impairment loss on intangible assets or property, plant and equipment is recognised in the income statement provided the increased carrying value is not greater than it would have been had no impairment loss been recognised.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Impairment losses on goodwill are not reversed.

The recoverable amount of an asset that does not generate cash flows that are independent from those of other assets or groups of assets, is determined as part of the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. For the purposes of impairment testing, goodwill acquired in a business combination is allocated to our cash-generating units or groups of cash-generating units expected to benefit from the combination.

The recoverable amount of an asset or cash-generating unit is the higher of its fair value less cost to sell or its value in use. Value in use is the present value of future cash flows from the asset or cash-generating unit discounted at a rate that reflects market interest rates adjusted for risks specific to the asset or cash-generating unit that have not been considered in estimating future cash flows.

The assessment of asset impairment is based upon value in use. This represents the value of future cashflows and uses our five-year revenue and cost forecasts and the expectation of long term economic growth beyond this period. The five-year forecast takes account of management's current expectations on competitiveness and profitability. The long term growth rate reflects external indicators which will include market expectations on climate risk. We do not consider any additional adjustments to this indicator.

3.6. Foreign currencies

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

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

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

3.7. Tax

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

Current tax is tax payable or recoverable in respect of the taxable profit or loss for the year arising in the income statement, other comprehensive income or equity. Provision is made for current tax at rates enacted, or substantively enacted, at the balance sheet date.

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.

3.8. Financial instruments

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

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

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

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

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

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

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

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

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

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

Financial liabilities are classified into one of following measurement categories:

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

3.9. Derecognition

A financial asset is derecognised (removed from the balance sheet) when the contractual right to receive cash flows from the asset has expired or when it has been transferred and the transfer qualifies for derecognition. Conversely, an asset is not derecognised in a contract under which we retain substantially all the risks and rewards of ownership.

A financial liability is removed from the balance sheet when the obligation is paid, or is cancelled, or expires. Cancellation includes the issuance of a substitute instrument on substantially different terms.

3.10. Netting

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

3.11. 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.

The consideration for any ordinary shares of NatWest Group plc purchased by us (known as treasury shares or own shares held) is deducted from equity. On the cancellation of treasury shares their nominal value is removed from equity and any excess of consideration over nominal value is treated in accordance with the capital maintenance provisions of the Companies Act 2006.

On the sale or re-issue of treasury shares the consideration received and related tax are credited to equity, net of any directly attributable incremental costs.

3.12. Derivatives and hedging

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

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

Hedge accounting

We enter into three types of hedge accounting relationships (see later). 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. Effectiveness is assessed by reference to 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.

Fair value hedge - the gain or loss on the hedging instrument and the hedged item attributable to the hedged risk is recognised in the income statement. Where the hedged item is measured at amortised cost, the balance sheet amount of the hedged item is also adjusted.

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

Hedge of net investment in a foreign operation - in the hedge of a net investment in a foreign operation, the effective portion of the designated hedge relationship is recognised in other comprehensive income. Any ineffective portion is recognised in profit or loss. Non-derivative financial liabilities as well as derivatives may be designated as a hedging instrument in a net investment hedge.

Discontinuation of hedge accounting

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

For fair value hedging any cumulative adjustment is amortised to the income statement over the life of the hedged item. Where the hedge item is no longer on the balance sheet the adjustment to the hedged item is reported in the income statement. For cash flow hedging the cumulative unrealised gain or loss is reclassified from equity to the income statement when the hedged cash flows occur or, if the forecast transaction results in the recognition of a financial asset or financial liability, when the hedged forecast cash flows affect the income statement. Where a forecast transaction is no longer expected to occur, the cumulative unrealised gain or loss is reclassified from equity to the income statement immediately.

For net investment hedging on disposal or partial disposal of a foreign operation, the amount accumulated in equity is reclassified from equity to the income statement.

4.Future accounting developments

International Financial Reporting Standards

Effective 1 January 2023

- IFRS 17 Insurance Contracts (Amendments to IFRS 17 Insurance Contracts);
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12);
- Definition of Accounting Estimates (Amendments to IAS 8); and
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).

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).

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

Notes to the consolidated financial statements

1 Net interest income

Net interest income is the difference between the interest NatWest Group earns from its interest-bearing assets, such as loans, balances with central banks and other financial assets, and the interest paid on its interest-bearing liabilities, such as deposits and subordinated liabilities.

Interest receivable on financial instruments classified as amortised cost, debt instruments classified as FVOCI and the interest element of the effective portion of any designated hedging relationships are measured using the effective interest rate, which allocates the interest receivable or interest payable over the expected life of the financial instrument at the rate that exactly discounts all estimated future cash flows to equal the financial 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 financial 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. Negative interest on financial assets is presented in interest payable and negative interest on financial liabilities is presented in interest receivable.

Included in interest receivable is finance lease income of £314 million (2021 - £298 million; 2020 - £289 million) which is recognised at a constant periodic rate of return before tax on the net investment.

For accounting policy information see Accounting policies note 3.1.

Continuing operations	2022 £m	2021 (1) £m	2020 (1) £m
Balances at central banks and loans to banks - amortised cost	**1,987**	445	336
Loans to customers - amortised cost	**10,085**	8,536	8,892
Other financial assets	**565**	253	483
Interest receivable	**12,637**	9,234	9,711
Balances with banks	**379**	204	144
Customer deposits	**785**	556	911
Other financial liabilities	**1,196**	670	846
Subordinated liabilities	**370**	267	402
Internal funding of trading businesses	**65**	2	19
Interest payable	**2,795**	1,699	2,322
Net interest income	**9,842**	7,535	7,389

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8.

2 Non-interest income

There are three main categories of non-interest income: net fees and commissions, trading income, and other operating income.

Net fees and commissions is the difference between fees received from customers for services provided by NatWest Group, such as credit card annual fees, mortgage arrangement fees, underwriting fees, payment services, brokerage fees, trade finance, investment management fees, trustee and fiduciary services, and fees incurred in the provision of those services, such as credit card interchange fees, customer incentives, loan administration, foreign currency transaction charges, brokerage fees, and mortgage valuation reports.

Trading income is earned from short-term financial assets and financial liabilities to either make a spread between purchase and sale price or held to take advantage of movements in prices and yields.

Other operating income includes revenue from other operating activities which are not related to the principal activities of the company, such as share of profit or loss from associate, operating lease income, the profit or loss on the sale of a subsidiary or property, plant and equipment, profit or loss on own debt, and changes in the fair value of financial assets and liabilities designated at fair value through profit or loss.

For accounting policy information see Accounting policies note 3.1 and 3.6.

Continuing operations	2022 £m	2021 (1) £m	2020 (1) £m
Net fees and commissions (2)	**2,292**	2,120	1,982
Trading income			
Foreign exchange	**305**	364	569
Interest rate (3)	**752**	(130)	541
Credit	**17**	83	3
Changes in fair value of own debt and derivative liabilities attributable to own credit risk			
- debt securities in issue	**42**	6	(24)
Equities, commodities and other	**17**	—	36
	1,133	323	1,125
Other operating income			
Loss on redemption of own debt	**(161)**	(145)	(324)
Rental income on operating lease assets and investment property	**230**	225	232
Changes in fair value of financial assets and liabilities designated at fair value through profit or loss (4)	**17**	(8)	(54)
Changes in fair value of other financial assets at fair value through profit or loss (5,6)	**(45)**	5	2
Hedge ineffectiveness	**(20)**	25	24
Loss on disposal of amortised cost assets and liabilities	**(15)**	(15)	(18)
(Loss)/profit on disposal of fair value through other comprehensive income assets	**(168)**	117	96
(Loss)/profit on sale of property, plant and equipment (7)	**(5)**	(30)	13
Share of (losses)/profits of associated entities	**(30)**	216	(30)
Profit/(loss) on disposal of subsidiaries and associates	**—**	48	(16)
Other income (8,9)	**86**	13	(18)
	(111)	451	(93)
	3,314	2,894	3,014

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8.
(2) Refer to Note 4 for further analysis.
(3) Includes fair value changes on derivatives which have not been designated in a hedge accounting relationship and gains and losses from the management of the NatWest Group's funding requirements involving the use of derivatives including FX. These are aimed at managing the interest rate and foreign exchange risk that NatWest Group is exposed to.
(4) Includes related derivatives.
(5) 2022 includes a £19 million gain from reclassification of mortgages from amortised cost to fair value through profit or loss. Refer to Note 10 for further details.
(6) Includes instruments that have failed solely payments of principal and interest testing under IFRS 9.
(7) 2021 includes £44 million loss on the purchase of freeholds for properties where the Group was the primary leaseholder.
(8) 2022 includes £92 million profit from insurance liabilities.
(9) 2020 includes £58 million loss on acquisition of a £3.0 billion prime UK mortgages portfolio from Metro Bank plc.

3 Operating expenses

Operating expenses are expenses NatWest Group incurs in the running of the business such as all staff costs (for example salaries, bonus awards, pension costs and social security costs), premises and equipment costs (that arise from the occupation of premises and the use of equipment), depreciation and amortisation and other administrative expenses.

For accounting policy information see Accounting policies note 3.3, 3.4 and 3.5.

Continuing operations	2022 £m	2021 £m	2020 £m
Salaries	**2,250**	2,295	2,494
Bonus awards	**334**	267	232
Temporary and contract costs	**234**	240	258
Social security costs	**328**	300	316
Pension costs	**363**	354	340
- defined benefit schemes (see Note 5)	**205**	215	215
- defined contribution schemes	**158**	139	125
Other	**207**	220	238
Staff costs	**3,716**	3,676	3,878
Premises and equipment	**1,112**	1,133	1,222
UK bank levy	**101**	99	167
Depreciation and amortisation (1,2)	**833**	923	913
Other administrative expenses (3)	**1,925**	1,927	1,678
Administrative expenses	**3,971**	4,082	3,980
	7,687	7,758	7,858

(1) Include depreciation on right of use assets of £119 million (2021 - £167 million; 2020 - £209 million).
(2) 2021 includes impairment of goodwill of £85 million.
(3) Includes litigation and conduct costs, net of amounts recovered. Refer to Note 21 for further details.

The average number of persons employed, rounded to the nearest hundred, during the year, excluding temporary staff,was 60,000 (2021- 59,200; 2020 - 61,400). The average number of temporary employees during 2022 was 2,500 (2021 - 2,500; 2020 – 3,200).

The number of persons employed at 31 December, excluding temporary staff, by reportable segment, was as follows:

Continuing operations	2022	2021	2020
Retail Banking	**14,800**	15,800	17,200
Private Banking	**2,100**	1,900	1,900
Commercial & Institutional	**12,200**	11,400	13,300
Central items & other (1)	**31,900**	28,700	26,800
Total	**61,000**	57,800	59,200
UK	**41,200**	40,600	42,500
USA	**300**	300	300
India	**15,700**	13,500	13,200
Poland	**1,500**	1,400	1,200
Republic of Ireland	**1,400**	1,200	1,400
Rest of the World	**900**	800	600
Total	**61,000**	57,800	59,200

(1) Central items & other includes Ulster Bank RoI. Total number of persons employed in Ulster Bank RoI of 2,200 (2021 – 2,400; 2020 – 2,600) includes 400 people employed in discontinued operations at 31 December 2022 (2021 – 700; 2020 – 700).

3 Operating expenses continued

Share-based payments

As described in the Remuneration report, NatWest Group grants share-based awards to employees principally on the following bases:

Award plan	Eligible employees	Nature of award	Vesting conditions (1)	Settlement
Sharesave	UK, Channel Islands, Gibraltar, Isle of Man, Poland and India.	Option to buy shares under employee savings plan	Continuing employment or leavers in certain circumstances	2023 to 2027
Deferred performance awards	All	Awards of ordinary shares and conditional shares	Continuing employment or leavers in certain circumstances	2023 to 2030
Long-term incentives (2) (3)	Senior employees	Awards of ordinary shares and conditional shares	Continuing employment or leavers in certain circumstances and/or satisfaction of the pre-vest assessment and underpins	2023 to 2029

(1) All awards have vesting conditions which may not be met.
(2) Long-term incentives include buy-out awards offered to compensate certain new hires for the loss of forfeited awards from their previous employment. All awards are granted under the Employee Share Plan.
(3) The existing Long-term incentive scheme has been closed to new awards and members as at 31 December 2022. The scheme will be replaced by a new Restricted share plan scheme with similar granting and vesting conditions. No awards have been granted at the end of the reporting period.

The fair value of Sharesave options granted in 2022 was determined using a pricing model that included: expected volatility of shares determined at the grant date based on historical volatility over a period of up to five years; expected option lives that equal the vesting period; estimated dividend yield on equity shares; and risk-free interest rates determined from UK gilts with terms matching the expected lives of the options.

The exercise price of options and the fair value on granting awards of fully paid shares is the average market price over the five trading days (three trading days for Sharesave) preceding grant date. When estimating the fair value of the award, the number of shares granted, and the prevailing market price as defined on page 135 of Exhibit 15.2 are used. The fair value of the award is recognised as services are provided over the vesting period.

Sharesave

	2022		2021		2020	
	Average exercise price £	Shares under option (million)	Average exercise price £	Shares under option (million)	Average exercise price £	Shares under option (million)
At 1 January	**1.61**	**95**	1.64	96	2.01	84
Granted	**1.86**	**25**	1.80	24	1.12	35
Exercised	**1.88**	**(15)**	1.76	(10)	1.83	—
Cancelled	**1.60**	**(6)**	2.02	(15)	2.20	(23)
At 31 December	**1.63**	**99**	1.61	95	1.64	96

Options are exercisable within six months of vesting; 5.1 million options were exercisable at 31 December 2022 (2021 - 6.0 million; 2020 - 6.3 million). The weighted average share price at the date of exercise of options was £2.59 (2021 - £2.19; 2020 - £1.57). At 31 December 2022, exercise prices ranged from £1.12 to £2.27 (2021 - £1.12 to £ 2.27; 2020 - £1.12 to £2.27) and the remaining average contractual life was 2 years (2021 - 2.1 years; 2020 - 2.3 years). The fair value of options granted in 2022 was £22.1 million (2021 - £17 million; 2020 - £8 million).

Deferred performance awards

	2022		2021		2020	
	Value at grant £m	Shares awarded (million)	Value at grant £m	Shares awarded (million)	Value at grant £m	Shares awarded (million)
At 1 January	**132**	**65**	169	77	196	76
Granted	**46**	**20**	61	32	109	67
Forfeited	**(4)**	**(2)**	(10)	(5)	(5)	(2)
Vested	**(81)**	**(37)**	(88)	(39)	(131)	(64)
At 31 December	**93**	**46**	132	65	169	77

The awards granted in 2022 vest in equal tranches on their anniversaries, predominantly over three years.

Long-term incentives

	2022		2021		2020	
	Value at grant £m	Shares awarded (million)	Value at grant £m	Shares awarded (million)	Value at grant £m	Shares awarded (million)
At 1 January	**44**	**21**	50	24	63	25
Granted	**16**	**7**	6	3	14	10
Vested/exercised	**(10)**	**(4)**	(12)	(6)	(17)	(7)
Lapsed	**(1)**	**(1)**	—	—	(10)	(4)
At 31 December	**49**	**23**	44	21	50	24

The market value of awards vested/exercised in 2022 was £11.7 million (2021 - £13 million; 2020- £13 million).

3 Operating expenses continued

Bonus awards

The following tables analyse NatWest Group's bonus awards for 2022.

	2022 £m	2021 £m	Change %
Non-deferred cash awards (1)	**40**	38	5 %
Deferred cash awards	**270**	214	26 %
Deferred share awards	**60**	49	22 %
Total deferred bonus awards	**330**	263	25 %
Total bonus awards (2)	**370**	301	23 %
Bonus awards as a % of operating profit before tax (3)	**7 %**	7 %	
Proportion of bonus awards that are deferred	**89 %**	87 %	
of which			
- deferred cash awards	**82 %**	81 %	
- deferred share awards	**18 %**	19 %	

Reconciliation of bonus awards to income statement charge	2022 £m	2021 £m	2020 £m
Bonus awarded	**370**	301	206
Less: deferral of charge for amounts awarded for current year	**(127)**	(99)	(77)
Income statement charge for amounts awarded in current year	**243**	202	129
Add: current year charge for amounts deferred from prior years	**94**	80	114
Less: forfeiture of amounts deferred from prior years	**(3)**	(15)	(11)
Income statement charge for amounts deferred from prior years	**91**	65	103
Income statement charge for bonus awards (2)	**334**	267	232

(1) Non-deferred cash awards are limited to £2,000 for all employees.
(2) Excludes other performance related compensation.
(3) Operating profit before tax and bonus expense.

	Actual			Expected	
Year in which income statement charge is expected to be taken for deferred bonus awards	2020 £m	2021 £m	2022 £m	2023 £m	2024 and beyond £m
Bonus awards deferred from 2020 and earlier	114	80	**19**	8	4
Bonus awards deferred from 2021	—	—	**75**	8	8
Less: forfeiture of amounts deferred from prior years	(11)	(15)	**(3)**	—	—
Bonus awards for 2022 deferred	—	—	**—**	105	22
	103	65	**91**	121	34

4 Segmental analysis

NatWest Group analyses its performance between the different operating segments of the Group as required by IFRS 8, Operating segments. The presentation is consistent with internal financial reporting and how senior management assesses the performance of each operating segment.

Changes in reportable segments:

Two changes to reportable segments have been made:

On 27 January 2022, NatWest Group announced that a new business segment, Commercial & Institutional, would be created, bringing together the Commercial, NatWest Markets and RBSI businesses to form a single business segment, with common management and objectives, to best support our customers across the full non-personal customer lifecycle.

Following good progress with respect to the phased withdrawal from the Republic of Ireland, announced in February 2021,Ulster Bank RoI continuing operations are now included in Central items & other.

Comparatives have been re-presented. The re-presentation of operating segments does not change the consolidated financial results of NatWest Group.

Reportable operating segments:

The business is organised into the following reportable segments: Retail Banking, Private Banking, Commercial & Institutional, and Central items & other.

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

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

Commercial & Institutional brings together our Commercial Banking, NatWest Markets and RBS International businesses, to support our customers across the full non-personal customer lifecycle, both domestically and internationally. Our Markets offering helps our customers manage financial risks across different geographies, while our International offering provides full-service banking operations in the Channel Islands, Isle of Man, Gibraltar and Luxembourg.

Central items & other includes corporate functions, such as NatWest Group Treasury, finance, risk management, compliance, legal, communications and human resources. Central functions manages NatWest Group capital resources and NatWest Group-wide regulatory projects and provides services to the reportable segments. Balances in relation to litigation issues and the international private banking business are included in Central items in the relevant periods. Ulster Bank RoI is no longer an operating segment and its continuing operations now form part of Central items & other.

Allocation of central balance sheet items

NatWest Group allocates all central costs relating to Services and Functions to the business using appropriate drivers; these are reported as indirect costs in the segmental income statements. Assets and risk-weighted assets held centrally, mainly relating to NatWest Group Treasury, are allocated to the business using appropriate drivers.

2022	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
Continuing operations					
Net interest income	**5,224**	**777**	**4,171**	**(330)**	**9,842**
Net fees and commissions	**422**	**250**	**1,580**	**40**	**2,292**
Other non-interest income	**—**	**29**	**662**	**331**	**1,022**
Total income	**5,646**	**1,056**	**6,413**	**41**	**13,156**
Depreciation and amortisation	**—**	**—**	**(161)**	**(672)**	**(833)**
Other operating expenses	**(2,593)**	**(622)**	**(3,583)**	**(56)**	**(6,854)**
Impairment (losses)/releases	**(229)**	**2**	**(122)**	**12**	**(337)**
Operating profit/(loss)	**2,824**	**436**	**2,547**	**(675)**	**5,132**

2021(1)					
Continuing operations					
Net interest income	4,074	480	2,974	7	7,535
Net fees and commissions	377	258	1,440	45	2,120
Other non-interest income	(6)	78	424	278	774
Total income	4,445	816	4,838	330	10,429
Depreciation and amortisation	(85)	—	(173)	(665)	(923)
Other operating expenses	(2,428)	(520)	(3,584)	(303)	(6,835)
Impairment releases/(losses)	36	54	1,160	(77)	1,173
Operating profit/(loss)	1,968	350	2,241	(715)	3,844

4 Segmental analysis continued

2020 (1)	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
Continuing operations					
Net interest income	3,868	489	3,054	(22)	7,389
Net fees and commissions	379	257	1,303	43	1,982
Other non-interest income	(66)	17	1,221	(140)	1,032
Total income	4,181	763	5,578	(119)	10,403
Depreciation and amortisation	—	(8)	(182)	(723)	(913)
Operating expenses	(2,540)	(447)	(3,849)	(109)	(6,945)
Impairment losses	(792)	(100)	(2,074)	(132)	(3,098)
Operating profit/(loss)	849	208	(527)	(1,083)	(553)

Total revenue (2)

Year ended 31 December 2022	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
Continuing operations					
External	**5,773**	**874**	**6,747**	**3,180**	**16,574**
Inter-segmental	**—**	**389**	**116**	**(505)**	**—**
Total	**5,773**	**1,263**	**6,863**	**2,675**	**16,574**
Year ended 31 December 2021 (1)					
Continuing operations					
External	5,419	792	5,168	1,323	12,702
Inter-segmental	14	127	123	(264)	—
Total	5,433	919	5,291	1,059	12,702
Year ended 31 December 2020 (1)					
Continuing operations					
External	5,386	702	6,223	1,136	13,447
Inter-segmental	39	163	80	(282)	—
Total	5,425	865	6,303	854	13,447

Total income

Year ended 31 December 2022	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
Continuing operations					
External	**5,646**	**780**	**6,777**	**(47)**	**13,156**
Inter-segmental	**—**	**276**	**(364)**	**88**	**—**
Total	**5,646**	**1,056**	**6,413**	**41**	**13,156**
Year ended 31 December 2021 (1)					
Continuing operations					
External	4,433	801	5,041	154	10,429
Inter-segmental	12	15	(203)	176	—
Total	4,445	816	4,838	330	10,429
Year ended 31 December 2020 (1)					
Continuing operations					
External	4,157	700	5,960	(414)	10,403
Inter-segmental	24	63	(382)	295	—
Total	4,181	763	5,578	(119)	10,403

4 Segmental analysis continued

Analysis of net fees and commissions 2022	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
Continuing operations					
Fees and commissions receivable					
- Payment services	**314**	**25**	**642**	**43**	**1,024**
- Credit and debit card fees	**401**	**15**	**227**	**18**	**661**
- Lending and financing	**17**	**8**	**673**	**3**	**701**
- Brokerage	**43**	**6**	**44**	**—**	**93**
- Investment management, trustee and fiduciary services (3)	**4**	**219**	**46**	**—**	**269**
- Underwriting fees	**—**	**—**	**120**	**—**	**120**
- Other	**—**	**3**	**88**	**(44)**	**47**
Total	**779**	**276**	**1,840**	**20**	**2,915**
Fees and commissions payable	**(357)**	**(26)**	**(260)**	**20**	**(623)**
Net fees and commissions	**422**	**250**	**1,580**	**40**	**2,292**
2021 (1)					
Continuing operations					
Fees and commissions receivable					
- Payment services	306	35	577	49	967
- Credit and debit card fees	344	10	149	19	522
- Lending and financing	13	10	643	4	670
- Brokerage	48	6	42	—	96
- Investment management, trustee and fiduciary services (3)	3	230	45	2	280
- Underwriting fees	—	—	127	—	127
- Other	—	35	109	(112)	32
Total	714	326	1,692	(38)	2,694
Fees and commissions payable	(337)	(68)	(252)	83	(574)
Net fees and commissions	377	258	1,440	45	2,120
2020 (1)					
Fees and commissions receivable					
- Payment services	264	28	543	41	876
- Credit and debit card fees	299	9	131	21	460
- Lending and financing	42	7	625	2	676
- Brokerage	54	6	94	1	155
- Investment management, trustee and fiduciary services	3	225	41	2	271
- Underwriting fees	—	—	183	—	183
- Other	1	26	89	(33)	83
Total	663	301	1,706	34	2,704
Fees and commissions payable	(284)	(44)	(403)	9	(722)
Net fees and commissions	379	257	1,303	43	1,982

	2022		2021		2020	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Retail Banking	**226,375**	**192,282**	209,973	192,715	197,618	178,617
Private Banking	**29,867**	**41,491**	29,854	39,388	26,206	32,457
Commercial & Institutional	**404,817**	**383,768**	425,718	411,757	491,544	460,338
Central items & other	**58,994**	**66,016**	116,447	96,329	84,123	84,255
Total	**720,053**	**683,557**	781,992	740,189	799,491	755,667

4 Segmental analysis continued

Segmental analysis of goodwill

The total carrying value of goodwill at 31 December 2022 and 2021 was £5,522 million comprising Retail Banking £2,607 million; Commercial & Institutional £2,906 million; and Private Banking £9 million. See note 17 for further details.

Geographical segments

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

2022	UK £m	USA £m	Europe £m	RoW £m	Total £m
Continuing operations					
Total revenue	**15,795**	**117**	**558**	**104**	**16,574**
Interest receivable	**12,242**	**37**	**344**	**14**	**12,637**
Interest payable	**(2,567)**	**(2)**	**(221)**	**(5)**	**(2,795)**
Net fees and commissions	**1,983**	**44**	**207**	**58**	**2,292**
Trading income	**1,208**	**1**	**(104)**	**28**	**1,133**
Other operating income	**(140)**	**14**	**12**	**3**	**(111)**
Total income (4)	**12,726**	**94**	**238**	**98**	**13,156**
Operating profit/(loss) before tax	**5,716**	**(46)**	**(620)**	**82**	**5,132**
Total assets	**589,758**	**25,979**	**101,164**	**3,152**	**720,053**
Total liabilities	**579,476**	**27,039**	**75,092**	**1,950**	**683,557**
Contingent liabilities and commitments	**117,915**	**—**	**8,649**	**17**	**126,581**

2021 (1)					
Continuing operations					
Total revenue	12,100	87	482	33	12,702
Interest receivable	8,949	20	257	8	9,234
Interest payable	(1,483)	(2)	(211)	(3)	(1,699)
Net fees and commissions	1,820	27	231	42	2,120
Trading income	247	53	(1)	24	323
Other operating income	387	2	62	—	451
Total income (4)	9,920	100	338	71	10,429
Operating profit/(loss) before tax	4,143	48	(387)	40	3,844
Total assets	693,221	21,776	64,415	2,580	781,992
Total liabilities	676,684	23,286	38,835	1,384	740,189
Contingent liabilities and commitments	117,225	1	8,114	27	125,367

2020 (1)					
Continuing operations					
Total revenue	12,511	211	551	174	13,447
Interest receivable	9,479	—	210	22	9,711
Interest payable	(2,163)	—	(158)	(1)	(2,322)
Net fees and commissions	1,637	33	215	97	1,982
Trading income	911	170	33	11	1,125
Other operating income	(117)	(22)	42	4	(93)
Total income (4)	9,747	181	342	133	10,403
Operating (loss)/profit before tax	(193)	(85)	(363)	88	(553)
Total assets	704,725	25,439	66,884	2,443	799,491
Total liabilities	686,500	26,932	41,018	1,217	755,667
Contingent liabilities and commitments	118,654	—	10,068	10	128,732

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8.
(2) Total revenue comprises interest receivable, fees and commissions receivable, income from trading activities and other operating income.
(3) Comparisons with prior periods are impacted by the transfer of the Private Client Advice business to Private Banking from 1 January 2021.
(4) Total income excludes internal service fee income which has been calculated on a cost plus mark-up basis.

5 Pensions

NatWest Group operates two types of pension scheme: defined benefit and defined contribution. The defined contribution schemes invest contributions in a choice of funds and the accumulated contributions and investment returns are used by the employee to provide benefits on retirement, there is no legal or constructive obligation for NatWest Group to pay any further contributions or benefits. The defined benefit schemes provide pensions in retirement based on employees' pensionable salary and service.

NatWest Group's balance sheet includes any defined benefit pension scheme surplus or deficit as a retirement benefit asset or liability reported in other assets and other liabilities. The surplus or deficit is the difference between the liabilities to be paid from the defined benefit scheme, and the assets held by the scheme to meet these liabilities. The liabilities are calculated by external actuaries using a number of financial and demographic assumptions.

For some NatWest Group defined benefit schemes where there is a net defined benefit surplus in excess of the present value of any economic benefits that can be obtained from that surplus, the application of accounting standards means we do not recognise that surplus on the balance sheet.

For accounting policy information see Accounting policies note 3.3.

Defined contribution schemes

NatWest Group sponsors several defined contribution schemes in different territories, which new employees are entitled to join. NatWest Group pays specific contributions into individual investment funds on employees' behalf. Once those contributions are paid, there is no further liability on the NatWest Group balance sheet relating to the defined contribution scheme.

Defined benefit schemes

NatWest Group sponsors a number of pension schemes in the UK and overseas, including the Main section of the NatWest Group Pension Fund (the Main section) which operates under UK trust law and is managed and administered on behalf of its members in accordance with the terms of the trust deed, the scheme rules and UK legislation.

Pension fund trustees are appointed to operate each fund and ensure benefits are paid in accordance with the scheme rules and national law. The trustees are the legal owner of a scheme's assets, and have a duty to act in the best interests of all scheme members.

The schemes generally provide a pension of one -sixtieth of final pensionable salary for each year of service prior to retirement up to a maximum of 40 years and are contributory for current members. These have been closed to new entrants for over ten years, although active members continue to build up additional pension benefits, currently subject to 2% maximum annual salary inflation, while they remain employed by NatWest Group.

The Main section corporate trustee is NatWest Pension Trustee Limited (the Trustee), a wholly owned subsidiary of NWB Plc, Principal Employer of the Main section. The Board of the Trustee comprises four member trustee directors selected from eligible active staff, deferred and pensioner members who apply and six appointed by NatWest Group. Under UK legislation, a defined benefit pension scheme is required to meet the statutory funding objective of having sufficient and appropriate assets to cover its liabilities (the pensions that have been promised to members).

Similar governance principles apply to NatWest Group's other defined benefit pension schemes.

Investment strategy

The assets of the Main section, which is typical of other group schemes, represent 91% of all plan assets at 31 December 2022 (2021 - 90%) and are invested as shown below.

The Main section employs physical, derivative and non-derivative instruments to achieve a desired asset class exposure and to reduce the section's interest rate, inflation, and currency risk. This means that the net funding position is considerably less sensitive to changes in market conditions than the value of the assets or liabilities in isolation. In particular, movements in interest rate and inflation are substantially hedged by the Trustee.

Over the year, increases in bond yields resulted in many pension schemes in the UK having to raise additional collateral to support Liability-driven investments positions held as part of their hedging strategies. Liability-driven investments (LDI) refer to assets that are expected to move broadly in line with liabilities on a specific basis. All of the Group's schemes affected by this were able to raise the collateral needed from existing assets, with no additional support from the Group. The Trustee of the Group Pension Fund takes a prudent approach to liquidity and collateral and holds sufficient collateral to withstand substantial rises in gilt yields. The level of collateral held by some of the Group's smaller schemes was increased over the year, so as to ensure they could withstand further large rises in gilt yields if required.

	2022			2021		
Major classes of plan assets as a percentage of total plan assets of the Main section	Quoted	Unquoted	Total	Quoted	Unquoted	Total
	%	%	%	%	%	%
Equities	**0.1**	**7.7**	**7.8**	3.7	4.7	8.4
Index linked bonds	**37.7**	**—**	**37.7**	46.7	—	46.7
Government bonds	**18.4**	**—**	**18.4**	9.8	—	9.8
Corporate and other bonds	**15.3**	**6.7**	**22.0**	10.7	4.4	15.1
Real estate	**—**	**6.0**	**6.0**	—	4.4	4.4
Derivatives	**—**	**8.2**	**8.2**	—	8.8	8.8
Cash and other assets	**—**	**(0.1)**	**(0.1)**	—	6.8	6.8
	71.5	**28.5**	**100.0**	70.9	29.1	100.0

5 Pensions continued

The Main section's holdings of derivative instruments are summarised in the table below:

	2022			2021		
	Notional amounts £bn	Fair value Assets £m	Liabilities £m	Notional amounts £bn	Fair value Assets £m	Liabilities £m
Inflation rate swaps	21	1,873	990	20	1,408	796
Interest rate swaps	103	14,317	12,546	172	8,385	4,421
Currency forwards	12	310	113	12	61	98
Equity and bond call options	—	—	—	—	1	—
Equity and bond put options	—	2	70	—	1	3
Other	1	14	19	1	9	10

Swaps have been executed at prevailing market rates and within standard market bid/offer spreads with a number of counterparties, including NWB Plc.

At 31 December 2022, the gross notional value of the swaps was £124 billion (2021 - £192 billion) and had a net positive fair value of £2,642 million (2021 - £4,573 million) against which the counterparties had posted approximately 112% collateral.

The schemes do not invest directly in NatWest Group but may have exposure to NatWest Group through indirect holdings. The trustees of the respective UK schemes are responsible for ensuring that indirect investments in NatWest Group do not exceed the regulatory limit of 5% of plan assets.

	Main section				All schemes			
Changes in value of net pension assets/(liability)	Fair value of plan assets £m	Present value of defined benefit obligation (1) £m	Asset ceiling/ minimum funding £m	Net pension assets/ (liability) (2) £m	Fair value of plan assets £m	Present value of defined benefit obligation (2) £m	Asset ceiling/ minimum funding £m	Net pension assets/ (liability) (2) £m
At 1 January 2021	51,323	(43,870)	(7,453)	—	57,249	(48,864)	(7,783)	602
Currency translation and other adjustments	—	—	—	—	(129)	116	3	(10)
Income statement - operating expenses	713	(767)	(105)	(159)	795	(901)	(109)	(215)
Other comprehensive income	841	1,056	(2,443)	(546)	872	1,061	(2,602)	(669)
Contributions by employer	705	—	—	705	780	—	—	780
Contributions by plan participants and other scheme members	8	(8)	—	—	13	(13)	—	—
Assets/liabilities extinguished upon settlement	—	—	—	—	—	—	—	—
Benefits paid	(1,569)	1,569	—	—	(1,793)	1,793	—	—
At 1 January 2022	**52,021**	**(42,020)**	**(10,001)**	**—**	**57,787**	**(46,808)**	**(10,491)**	**488**
Currency translation and other adjustments	**—**	**—**	**—**	**—**	**78**	**(65)**	**(11)**	**2**
Income statement - operating expenses								
Net interest expense	**932**	**(744)**	**(180)**	**8**	**1,041**	**(834)**	**(191)**	**16**
Current service cost	**—**	**(143)**	**—**	**(143)**	**—**	**(194)**	**—**	**(194)**
Past service cost	**—**	**(5)**	**—**	**(5)**	**—**	**(6)**	**—**	**(6)**
Loss on curtailments and settlements	**—**	**—**	**—**	**—**	**—**	**(21)**	**—**	**(21)**
	932	**(892)**	**(180)**	**(140)**	**1,041**	**(1,055)**	**(191)**	**(205)**
Other comprehensive income								
Return on plan assets excluding recognised interest income (3)	**(18,180)**	**—**	**—**	**(18,180)**	**(20,326)**	**—**	**—**	**(20,326)**
Experience gains and losses	**—**	**(2,053)**	**—**	**(2,053)**	**—**	**(2,137)**	**—**	**(2,137)**
Effect of changes in actuarial financial assumptions (3)	**—**	**18,744**	**—**	**18,744**	**—**	**20,714**	**—**	**20,714**
Effect of changes in actuarial demographic assumptions	**—**	**23**	**—**	**23**	**—**	**(7)**	**—**	**(7)**
Asset ceiling adjustments	**—**	**—**	**898**	**898**	**—**	**—**	**916**	**916**
	(18,180)	**16,714**	**898**	**(568)**	**(20,326)**	**18,570**	**916**	**(840)**
Contributions by employer	**708**	**—**	**—**	**708**	**775**	**—**	**—**	**775**
Contributions by plan participants and other scheme members	**7**	**(7)**	**—**	**—**	**13**	**(13)**	**—**	**—**
Assets/liabilities extinguished upon settlement	**—**	**—**	**—**	**—**	**(113)**	**113**	**—**	**—**
Benefits paid	**(1,472)**	**1,472**	**—**	**—**	**(1,657)**	**1,657**	**—**	**—**
At 31 December 2022	**34,016**	**(24,733)**	**(9,283)**	**—**	**37,598**	**(27,601)**	**(9,777)**	**220**

(1) Defined benefit obligations are subject to annual valuation by independent actuaries.

(2) NatWest Group recognises the net pension scheme surplus or deficit as a net asset or liability. In doing so, the funded status is adjusted to reflect any schemes with a surplus that NatWest Group may not be able to access, as well as any minimum funding requirement to pay in additional contributions. This is most relevant to the Main section, where the surplus is not recognised as the trustees may have control over the use of the surplus. Other NatWest Group schemes that this applies to include the Ulster Bank Pension Scheme (NI) and the NatWest Markets section.

(3) Changes in market conditions during 2022 resulted in a particularly large increase in discount rate, which is the key driver of the effect of changes in actuarial financial assumptions. Given the level of hedging in place, there was a corresponding reduction in the value of plan assets over the period. The experience losses shown are mainly as a result of inflation over the year being higher than expected.

(4) NatWest Group expects to make contributions to the Main section of £196 million in 2023. In 2022 NatWest Group made contributions of £708m to the Main scheme, including a £500m contribution paid in two instalments in January and March 2022 as required by the ring-fencing agreement with the Trustee. Such contributions do not constitute a minimum funding requirement as the obligation to pay only arises on the payment of a distribution to shareholders.

5 Pensions continued

	All schemes	
	2022	2021
Amounts recognised on the balance sheet	£m	£m
Fund asset at fair value	**37,598**	57,787
Present value of fund liabilities	**(27,601)**	(46,808)
Funded status	**9,997**	10,979
Assets ceiling/minimum funding	**(9,777)**	(10,491)
	220	488

	2022	2021
Net pension assets/(liability) comprises	£m	£m
Net assets of schemes in surplus (included in Other assets, Note 18)	**318**	602
Net liabilities of schemes in deficit (included in Other liabilities, Note 21)	**(98)**	(114)
	220	488

Funding and contributions by NatWest Group

In the UK, the trustees of defined benefit pension schemes are required to perform funding valuations every three years. The trustees and the sponsor, with the support of the Scheme Actuary, agree the assumptions used to value the liabilities and to determine future contribution requirements. The funding assumptions incorporate a margin for prudence over and above the expected cost of providing the benefits promised to members, taking into account the sponsor's covenant and the investment strategy of the scheme. Similar arrangements apply in the other territories where NatWest Group sponsors defined benefit pension schemes.

A full triennial funding valuation of the Main section, effective 31 December 2020, was completed during financial year 2021.

This triennial funding valuation determined the funding level to be 104%, pension liabilities to be £49 billion and the surplus to be £2 billion, all assessed on the agreed funding basis. The average cost of the future service of current members is 49% of salary before contributions from those members. In addition, the sponsor has agreed to meet administrative expenses. Following the ring-fencing agreement with the Trustee reached in 2018, additional contributions of up to £500 million p.a. are payable to the Main section should the Group make distributions to shareholders of an equal amount.

These contributions are capped at £1.5 billion in total; £500 million was paid in 2022 (2021 – £500 million). The remaining distribution linked contribution to the Main section would have fallen due in 2023, but NatWest Bank has agreed with the Trustee that assets to the value of the contributions falling due will instead be paid to a new legal structure. These assets will be restricted and are reserved to ensure they are available should they be needed by the Trustee according to agreed criteria in the future. The assets under this arrangement would be available to the Group to the extent that they are not needed under the defined trigger events.

The key assumptions used to determine the funding liabilities were the discount rate, which is determined based on fixed interest swap and gilt yields plus 0.64% per annum, and mortality assumptions, which result in life expectancies of 27.7/29.4 years for males/females who are currently age 60 and 28.9/30.7 years from age 60 for males/females who are currently aged 40.

The 2020 triennial valuation of the Group Pension Fund included an allowance for the estimated impact of guaranteed minimum pension equalisation, which is reflected in the IAS 19 valuation at 31 December 2022.

Accounting Assumptions

Placing a value on NatWest Group's defined benefit pension schemes' liabilities requires NatWest Group's management to make a number of assumptions, with the support of independent actuaries. The ultimate cost of the defined benefit obligations depends upon actual future events and the assumptions made are unlikely to be exactly borne out in practice, meaning the final cost may be higher or lower than expected.

The most significant assumptions used for the Main section are shown below:

	Principal IAS 19 actuarial assumptions [1]	
	2022	2021
	%	%
Discount rate	**5.0**	1.8
Inflation assumption (RPI)	**3.2**	3.3
Rate of increase in salaries	**1.8**	1.8
Rate of increase in deferred pensions	**3.2**	3.7
Rate of increase in pensions in payment	**2.5**	2.5
Lump sum conversion rate at retirement	**18**	18
Longevity at age 60:	**years**	years
Current pensioners		
Males	**27.3**	27.3
Females	**29.1**	29.0
Future pensioners, currently aged 40		
Males	**28.3**	28.2
Females	**30.1**	30.1

(1) The above financial assumptions are long term assumptions set with reference to the period over which the obligations are expected to be settled

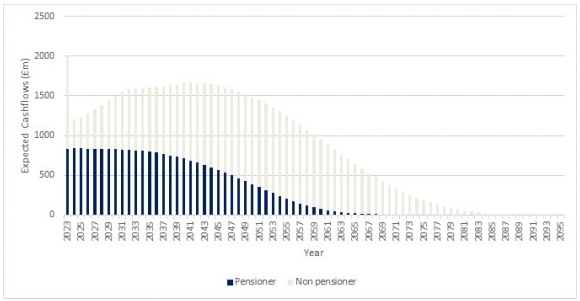
5 Pensions continued

Discount rate

The IAS 19 valuation uses a single discount rate set by reference to the yield on a basket of 'high quality' sterling corporate bonds.

Significant judgment is required when setting the criteria for bonds to be included in the basket of bonds that is used to determine the discount rate used in the IAS 19 valuations. The criteria include issue size, quality of pricing and the exclusion of outliers. Judgment is also required in determining the shape of the yield curve at long durations; a constant credit spread relative to gilts is assumed. Sensitivity to the main assumptions is presented below.

The weighted average duration of the Main section's defined benefit obligation at 31 December 2022 is 15.3 years (2021 - 20 years). The chart below shows the projected benefit payment pattern for the Main section in nominal terms. These cashflows are based on the most recent formal actuarial valuation, effective 31 December 2020.



The larger outflow in 2023 represents an assumption in the actuarial valuation of the level of transfers out to 31 December 2023.

5 Pensions continued

The table below shows how the net pension asset of the Main section would change if the key assumptions used were changed independently. In practice the variables have a degree of correlation and do not move completely in isolation.

2022	(Decrease)/ increase in value of assets £m	(Decrease)/ increase in value of liabilities £m	Increase in net pension (obligations)/ assets £m
0.25% increase in interest rates/discount rate [2]	**(1,389)**	**(907)**	**(482)**
0.25% increase in inflation	**963**	**632**	**331**
0.25% increase in credit spreads	**(3)**	**(907)**	**904**
Longevity increase of one year	**—**	**767**	**(767)**
0.25% additional rate of increase in pensions in payment	**—**	**679**	**(679)**
Increase in equity values of 10% [1]	**267**	**—**	**267**
2021			
0.25% increase in interest rates/discount rate	(2,917)	(1,926)	(991)
0.25% increase in inflation	1,883	1,329	554
0.25% increase in credit spreads	(3)	(1,926)	1,923
Longevity increase of one year	—	1,790	(1,790)
0.25% additional rate of increase in pensions in payment	—	1,485	(1,485)
Increase in equity values of 10% [1]	442	—	442

(1) Includes both quoted and private equity.
(2) A 0.5% increase in interest rates/discount rate would lead to a decrease of £2,689m in the value of assets and a £1,766m decrease in the value of liabilities at 31 December 2022.

The funded status is most sensitive to movements in credit spreads and longevity. Note the longevity sensitivities quoted above reflect the impact of a one year increase to single life annuities. The table below shows the combined change in the funded status of the Main section as a result of larger movements in these assumptions, assuming no changes in other assumptions.

		Change in life expectancies				
2022		-2 years £bn	-1 years £bn	No change £bn	+ 1 year £bn	+ 2 years £bn
Change in credit spreads	+50 bps	**3.2**	**2.5**	**1.8**	**1.1**	**0.4**
	No change	**1.6**	**0.8**	**—**	**(0.8)**	**(1.5)**
	-50 bps	**(0.3)**	**(1.2)**	**(2.0)**	**(2.8)**	**(3.6)**
2021						
Change in credit spreads	+50 bps	6.9	5.3	3.8	2.3	0.8
	No change	3.6	1.8	—	(1.8)	(3.6)
	-50 bps	(0.3)	(2.4)	(4.5)	(6.6)	(8.7)

The defined benefit obligation of the Main section is attributable to the different classes of scheme members in the following proportions:

Membership category	2022 %	2021 %
Active members	**8.4**	10.7
Deferred members	**41.0**	47.6
Pensioners and dependants	**50.6**	41.7
	100.0	100.0

The experience history of NatWest Group schemes is shown below:

	Main section					All schemes				
History of defined benefit schemes	2022 £m	2021 £m	2020 £m	2019 £m	2018 £m	2022 £m	2021 £m	2020 £m	2019 £m	2018 £m
Fair value of plan assets	**34,016**	52,021	51,323	46,555	43,806	**37,598**	57,787	57,249	51,925	48,752
Present value of plan obligations	**(24,733)**	(42,020)	(43,870)	(39,669)	(35,466)	**(27,601)**	(46,808)	(48,864)	(44,115)	(39,607)
Net surplus	**9,283**	10,001	7,453	6,886	8,340	**9,997**	10,979	8,385	7,810	9,145
Experience (losses)/gains on plan liabilities	**(2,053)**	241	427	275	(122)	**(2,137)**	237	455	279	(81)
Experience (losses)/gains on plan assets	**(19,180)**	841	5,486	3,021	(1,891)	**(20,326)**	872	6,027	3,556	(2,090)
Actual return on plan assets	**(17,248)**	1,554	6,422	4,266	(768)	**(19,285)**	1,667	7,064	4,930	(848)
Actual return on plan assets	**(33.2)%**	3.0 %	13.8 %	9.7 %	(1.7)%	**(33.4)%**	2.9 %	13.6 %	10.1 %	(1.7)%

6 Auditor's remuneration

Amounts payable to NatWest Group's auditors for statutory audit and other services are set out below.

All audit-related and other services are approved by the Group Audit Committee and are subject to strict controls to ensure the external auditor's independence is unaffected by the provision of other services. The Group Audit Committee recognises that for certain assignments, the auditors are best placed to perform the work economically; for other work, NatWest Group selects the supplier best placed to meet its requirements. NatWest Group's auditors are permitted to tender for such work in competition with other firms where the work is permissible under audit independence rules.

	2022 £m	2021 £m	2020 £m
Fees payable for :			
- the audit of NatWest Group's annual accounts (1)	**4.7**	4.4	4.7
- the audit of NatWest Group plc's subsidiaries (1)	**31.9**	29.6	30.6
- audit-related assurance services (1,2)	**3.9**	5.3	4.7
Total audit and audit-related assurance services fees	**40.5**	39.3	40.0
Other assurance services	**1.2**	0.4	0.6
Corporate finance services (3)	**0.5**	0.5	0.4
Total other services	**1.7**	0.9	1.0

(1) The 2022 audit fee was approved by the Group Audit Committee. At 31 December 2022, £16 million has been billed and £13 million paid in respect of the 2022 NatWest Group audit fees.
(2) Comprises fees of £1.1 million (2021 - £1.1 million) in relation to reviews of interim financial information, £2.3 million (2021 - £3.5 million) in respect of reports to NatWest Group's regulators in the UK and overseas, and £0.4 million (2021 - £0.7 million) in relation to non-statutory audit opinions.
(3) Comprises fees of £0.5 million (2021 - £0.5 million) in respect of work performed by the auditors as reporting accountants on debt and equity issuances undertaken by NatWest Group.

7 Tax

NatWest Group's corporate income tax charge for the period is set out below, together with a reconciliation to the expected tax charge calculated using the UK standard corporation tax rate and details of the NatWest Group's deferred tax balances.

For accounting policy information see Accounting policies note 3.7.

Analysis of the tax charge for the year

The tax charge comprises current and deferred tax in respect of profits and losses recognised or originating in the income statement. Tax on items originating outside the income statement is charged to other comprehensive income or direct to equity (as appropriate) and is therefore not reflected in the table below.

Current tax is tax payable or recoverable in respect of the taxable profit or loss for the year and any adjustments to tax payable in prior years. Deferred tax is explained on page 56.

Continuing operations	2022 £m	2021 £m	2020 £m
Current tax			
Charge for the year	**(1,611)**	(1,036)	(191)
Over provision in respect of prior years	**100**	31	86
	(1,511)	(1,005)	(105)
Deferred tax			
Credit/(charge)for the year	**47**	(185)	176
UK tax rate change impact (1)	**(10)**	165	75
Net increase/(decrease) in the carrying value of deferred tax assets in respect of UK, RoI and Netherlands losses	**267**	12	(130)
(Under)/over provision in respect of prior years (2)	**(68)**	17	(90)
Tax charge for the year	**(1,275)**	(996)	(74)

(1) It was announced in the UK Government's budget on 27 October 2021 that the main UK banking surcharge will decrease from 8% to 3% from 1 April 2023. This legislative change was enacted on 24 February 2022.
(2) Prior year tax adjustments incorporate refinements to tax computations made on submission and agreement with the tax authorities and adjustments to provisions in respect of uncertain tax positions.

7 Tax continued

Factors affecting the tax charge for the year

Taxable profits differ from profits reported in the income statement as certain amounts of income and expense may not be taxable or deductible. In addition, taxable profits may reflect items that have been included outside the income statement (for instance, in other comprehensive income) or adjustments that are made for tax purposes only.

The expected tax charge for the year is calculated by applying the standard UK corporation tax rate of 19% (2021 and 2020 – 19%) to the Operating profit or loss before tax in the income statement.

The actual tax charge differs from the expected tax charge as follows:

Continuing operations	2022 £m	2021 £m	2020 £m
Expected tax (charge)/credit	**(975)**	(766)	92
Losses and temporary differences in year where no deferred tax asset recognised	**(118)**	(51)	(43)
Foreign profits taxed at other rates	**(62)**	(11)	(29)
Non deductible goodwill impairment	**—**	(16)	—
Items not allowed for tax:			
- losses on disposals and write-downs	**(10)**	(55)	(22)
- UK bank levy	**(20)**	(18)	(32)
- regulatory and legal actions	**(7)**	(74)	14
- other disallowable items	**(51)**	(28)	(70)
Non-taxable items:			
- RPI related uplift on index linked gilts [1]	**67**	—	—
- other non-taxable items	**29**	73	28
Taxable foreign exchange movements	**(19)**	8	(3)
Unrecognised losses brought forward and utilised	**6**	10	16
Net increase/(decrease) in the carrying value of deferred tax assets in respect of:			
- UK losses	**272**	(9)	7
- RoI losses	**(5)**	(27)	(137)
- Netherlands losses	**—**	48	—
Banking surcharge	**(447)**	(341)	(27)
Tax on paid-in equity dividends	**43**	48	61
UK tax rate change impact	**(10)**	165	75
Adjustments in respect of prior years	**32**	48	(4)
Actual tax charge	**(1,275)**	(996)	(74)

(1) The tax impact of this adjustment (£135 million credit) is allocated across the RPI related uplift on index linked gilts, Adjustments in respect of prior years and Banking surcharge reconciling items.

Judgment: tax contingencies

NatWest Group's corporate income tax charge and its provisions for corporate income taxes necessarily involve a degree of estimation and judgment. The tax treatment of some transactions is uncertain and tax computations are yet to be agreed with the tax authorities in a number of jurisdictions. NatWest Group recognises anticipated tax liabilities based on all available evidence and, where appropriate, in the light of external advice. Any difference between the final outcome and the amounts provided will affect current and deferred income tax charges in the period when the matter is resolved.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable in respect of temporary differences where the carrying amount of an asset or liability differs for accounting and tax purposes. Deferred tax liabilities reflect the expected amount of tax payable in the future on these temporary differences. Deferred tax assets reflect the expected amount of tax recoverable in the future on these differences.

The net deferred tax asset recognised by the NatWest Group is shown below, together with details of the accounting judgments and tax rates that have been used to calculate the deferred tax. Details are also provided of any deferred tax assets or liabilities that have not been recognised on the balance sheet.

Analysis of deferred tax

	£m	£m
Deferred tax asset	**(2,178)**	(1,195)
Deferred tax liability	**227**	359
Net deferred tax asset	**(1,951)**	(836)

7 Tax continued

	Pension £m	Accelerated capital allowances £m	Expense provisions £m	Financial instruments (1) £m	Tax losses carried forward £m	Other £m	Total £m
At 1 January 2021	(4)	(64)	(85)	480	(905)	(32)	(610)
Charge/(credit) to income statement:							
- continuing operations	19	21	(5)	(10)	(1)	(33)	(9)
- discontinued operations	—	—	—	—	3	—	3
Charge/(credit) to other comprehensive income	10	—	(7)	(222)	—	(5)	(224)
Currency translation and other adjustments	(1)	1	—	—	4	—	4
At 1 January 2022	**24**	**(42)**	**(97)**	**248**	**(899)**	**(70)**	**(836)**
Charge/(credit) to income statement:							
- continuing operations	**1**	**(43)**	**14**	**(171)**	**(51)**	**14**	**(236)**
- discontinued operations	**—**	**—**	**—**	**—**	**—**	**—**	**—**
(Credit)/charge to other comprehensive income	**(2)**	**—**	**1**	**(913)**	**—**	**(2)**	**(916)**
Currency translation and other adjustments	**—**	**10**	**—**	**31**	**(2)**	**(2)**	**37**
At 31 December 2022	**23**	**(75)**	**(82)**	**(805)**	**(952)**	**(60)**	**(1,951)**

(1) The in-year movement predominantly relates to cash flow hedges.

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

	2022 £m	2021 £m
UK tax losses carried forward		
- NWM Plc	**3**	56
- NWB Plc	**445**	608
- RBS plc	**452**	176
Total	**900**	840
Overseas tax losses carried forward		
- UBIDAC	**6**	11
- NWM N.V.	**46**	48
	952	899

Critical accounting policy: Deferred tax

NatWest Group has recognised a deferred tax asset of £2,178 million (2021 - £1,195 million) and a deferred tax liability of £227 million (2021 - £359 million). These include amounts recognised in respect of UK and overseas tax losses of £952 million (2021 - £899 million).

It was announced in the UK Government's budget on 27 October 2021 that the UK banking surcharge will decrease from 8% to 3% from 1 April 2023. This legislative change was enacted on 24 February 2022. NatWest Group's closing deferred tax assets and liabilities have therefore been recalculated taking into account this change of rate and the applicable period the deferred tax assets and liabilities are expected to crystallise.

Judgment – NatWest 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 recognised deferred tax assets.

Estimate – These estimates are partly based on forecast performance beyond the horizon for management's detailed plans. They have regard to inherent uncertainties, such as climate change. The deferred tax assets in NWM Plc and UBIDAC are supported by way of future reversing taxable temporary differences on which deferred tax liabilities are recognised at 31 December 2022.

UK tax losses

Under UK tax rules, tax losses can be carried forward indefinitely. As the recognised tax losses in NatWest Group arose prior to 1 April 2015, credit in future periods is given against 25% of profits at the main rate of UK corporation tax, excluding the Banking Surcharge rate introduced by The Finance (No. 2) Act 2015.

7 Tax continued

NWM Plc - A deferred tax asset of £3 million (2021 - £56 million) has been recognised in respect of losses of £12 million, and is now entirely supported by way of future reversing taxable temporary differences on which deferred tax liabilities are recognised at 31 December 2022. NWM Plc expects that the balance of recognised deferred tax asset at 31 December 2022 will be recovered by the end of 2027. Of the losses remaining, £5,538 million have not been recognised in the deferred tax balance at 31 December 2022.

NWB Plc – A deferred tax asset of £445 million (2021 - £608 million) has been recognised in respect of losses of £1,847 million of total losses of £2,718 million carried forward at 31 December 2022. The losses arose principally as a result of significant impairment and conduct charges between 2009 and 2012 during challenging economic conditions in the UK banking sector. NWB Plc returned to tax profitability during 2015 and expects the deferred tax asset to be utilised against future taxable profits by the end of 2027.

RBS plc – A deferred tax asset of £452 million (2021 - £176 million) has been recognised in respect of losses of £1,821 million of total losses of £3,692 million carried forward at 31 December 2022. The losses were transferred from NatWest Markets Plc as a consequence of the ring fencing regulations. RBS plc expects the deferred tax asset to be utilised against future taxable profits by the end of 2029.

Overseas tax losses

UBIDAC – A deferred tax asset of £6 million (2021 - £11 million) has been recognised in respect of losses of £48 million, and is now entirely supported by way of future reversing taxable temporary differences on which deferred tax liabilities are recognised at 31 December 2022.

NatWest Market N.V. (NWM N.V.) - A deferred tax asset of £46 million (2021 - £48 million) has been recognised in respect of losses of £186 million of total losses of £2,914 million carried forward at 31 December 2022. NWM N.V. Group considers it to be probable, based on its 5 year budget forecast, that future taxable profit will be available against which the tax losses and tax credits can be partially utilised. The tax losses and the tax credits have no expiry date.

Unrecognised deferred tax

Deferred tax assets of £5,534 million (2021 - £5,437 million; 2020 - £4,965 million) have not been recognised in respect of tax losses and other deductible temporary differences carried forward of £25,742 million (2021 - £24,699 million; 2020 - £25,091 million) in jurisdictions where doubt exists over the availability of future taxable profits. Of these losses and other deductible temporary differences, £75 million expire within five years and £4,774 million thereafter. The balance of tax losses and other deductible temporary differences carried forward has no expiry date.

Deferred tax liabilities of £257 million (2021 - £302 million; 2020 - £242 million) on aggregate underlying temporary differences of £1,010 million (2021 - £1,032 million; 2020 £1,021 million) have not been recognised in respect of retained earnings of overseas subsidiaries and held-over gains on the incorporation of certain overseas branches. Retained earnings of overseas subsidiaries are expected to be reinvested indefinitely or remitted to the UK free from further taxation. No taxation is expected to arise in the foreseeable future in respect of held-over gains on which deferred tax is not recognised. Changes to UK tax legislation largely exempts from UK tax overseas dividends received on or after 1 July 2009.

8 Discontinued operations and assets and liabilities of disposal groups

Discontinued operations are reported separately on the income statement to allow users to distinguish the profits and cash flows from continuing operations from those activities that are subject to disposal. Assets and liabilities which we intend to dispose of in a single transaction are also presented separately on the balance sheet.

For accounting policy information see Accounting policies note 3.2.

This note sets out the profit/(loss) from the discontinued operations (represented for comparative periods), the assets and liabilities of the disposal group and the operating cash flows attributable to the discontinued operations.

Three legally binding agreements for the sale of UBIDAC business have been announced as part of the phased withdrawal from the Republic of Ireland. Material developments since the beginning of 2022 are set out below.

Agreement with Allied Irish Banks, p.l.c. (AIB) for the transfer of performing commercial loans.

Successful migration of six tranches of performing commercial loans to AIB was completed during 2022, with €2.1 billion of gross performing loans being fully migrated by year-end. It is expected that remaining migrations of commercial customers will be materially completed in phases over H1 2023. Colleagues who are wholly or mainly assigned to supporting this part of the business are in the process of getting transferred to AIB under Transfer of Undertakings, Protection of Employment (TUPE) arrangements, with more than half having completed their move by the end of 2022. Losses on disposal of €123 million have been recognised in 2022 in respect of the migrations completed to date.

Agreement with Permanent TSB Group Holdings p.l.c. (PTSB) for the sale of performing non-tracker mortgages, the performing loans in the micro-SME business, the UBIDAC Asset Finance business, including its Lombard digital platform, and 25 Ulster Bank branch locations in the Republic of Ireland.

c.€5 billion of performing non-tracker mortgages migrated to PTSB in November 2022, with the remaining balances expected to migrate during H1 2023. In January 2023, 25 branches transferred to PTSB. The remaining performing non-tracker mortgages, micro-SME loans, Lombard Asset Finance business and all remaining eligible colleagues who will move under TUPE regulations, are also expected to transfer in 2023.

Agreement with AIB for the sale of performing tracker and linked mortgages.

In January 2023 the Competition and Consumer Protection Commission (CCPC) granted approval on the portfolio sale of performing tracker and linked mortgages to AIB. Completion of this sale is expected to occur in Q2 2023.

The business activities relating to these sales that meet the requirements of IFRS 5 are presented as a discontinued operation and as a disposal group. Comparatives have been re-presented from those previously published to reclassify certain items as discontinued operations. This has resulted in a re-presentation of 2021 comparatives: a reduction of Operating profit before tax and Profit from continuing operations of £188 million, and an increase of Profit from discontinued operations of £188 million. Total profit for the year remains unchanged. Ulster Bank RoI continuing operations are now reported within Group central items & other. In 2022 we reclassified mortgage loans to fair value through profit or loss, which resulted in a €453 million reduction in mortgage financial assets in UBIDAC to 31 December 2022. This reclassification applies across both our continuing and discontinued operations.

(a) (Loss)/profit from discontinued operations, net of tax

	2022 £m	2021 £m	2020 £m
Interest receivable	**177**	339	360
Net interest income	**177**	339	360
Non-interest income(1)	**(472)**	13	33
Total income	**(295)**	352	393
Operating expenses	**(38)**	(47)	(47)
(Loss)/profit before impairment releases/(losses)	**(333)**	305	346
Impairment releases/(losses)	**71**	162	(144)
Operating (loss)/profit before tax	**(262)**	467	202
Tax charge	**—**	(3)	(9)
(Loss)/profit from discontinued operations, net of tax	**(262)**	464	193

(1) Excludes gain of £20 million (€24 million) recognised by NatWest Group as a result of acquisition of PTSB shares in relation to disposal of UBIDAC assets to PTSB.

8 Discontinued operations and assets and liabilities of disposal groups continued

(b) Assets and liabilities of disposal groups

	2022 £m	2021 £m
Assets of disposal groups		
Loans to customers - amortised cost	1,458	9,002
Other financial assets - loans to customers	5,397	—
Derivatives	—	5
Other assets	6	8
	6,861	9,015
Liabilities of disposal groups		
Other liabilities	15	5
	15	5
Net assets of disposal groups	6,846	9,010

(c) Operating cash flows attributable to discontinued operations

	2022 £m	2021 £m	2020 £m
Net cash flows from operating activities	1,090	2,212	(816)
Net cash flows from investing activities	6,164	—	—
Net increase/(decrease) in cash and cash equivalents	7,254	2,212	(816)

9 Earnings per share

Earnings per share is a metric to measure how much profit NatWest Group makes for each share that is in issue during the year. Basic earnings per ordinary share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding. Diluted earnings per ordinary share is calculated by dividing the basic earnings by the weighted average number of ordinary shares outstanding plus the weighted average number of ordinary shares that would be issued on conversion of dilutive share options and convertible securities. The assessment of whether the effect of share options and convertible securities is dilutive or not, is based on the earnings from continuing operations.

	2022 £m	2021 £m	2020 £m
Earnings			
Profit/(loss) from continuing operations attributable to ordinary shareholders	3,602	2,486	(946)
(Loss)/profit from discontinued operations attributable to ordinary shareholders	(262)	464	193
Profit/(loss) attributable to ordinary shareholders	3,340	2,950	(753)
Weighted average number of shares (millions)			
Weighted average number of ordinary shares outstanding during the year	9,872	10,792	11,231
Effect of dilutive share options and convertible securities(1)	57	45	—
Diluted weighted average number of ordinary shares outstanding during the year	9,929	10,837	11,231

(1) As there was a loss from continuing operations attributable to the parent company for the period to 31 December 2020, the effect of share options and convertible securities was not dilutive.
(2) At the General Meeting and Class Meeting on 25 August 2022, the shareholders approved the proposed special dividend and share consolidation. On 30 August 2022 the issued ordinary share capital was consolidated in the ratio of 14 existing shares for 13 new shares. The average number of shares and earnings per share have been adjusted retrospectively.

10 Financial instruments – classification

Financial instruments are contracts that give rise to a financial asset of one entity and a corresponding financial liability or equity instrument of a counterparty entity, such as: cash; derivatives; loans; deposits; and settlement balances. This note presents financial instruments classified in accordance with IFRS 9 – Financial Instruments.

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. 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 solely payments of principal and interest, including contingent and leverage features, non-recourse arrangements and features that could modify the time value of money.

We originate loans that include features that change the contractual cash flows based on the borrower meeting certain contractually specified environmental, social and governance (ESG) targets. These are known as ESG-linked (or sustainability-linked) loans. As part of the terms of these loans, the contractual interest rate is reduced or increased if the borrower meets (fails to meet) specific targets linked to the activity of the borrower for example reducing carbon emissions, increase the level of diversity at Board level, sustainable supply chain, etc. ESG features are first assessed to ascertain whether the adjustment to the contractual cash flows results in a de minimis exposure to risks or volatility in those contractual cash flows. If this is the case the classification of the loan is not affected. If the effect of the ESG feature is assessed as being more than de minimis, we apply judgement to ensure that the ESG features do not generate compensation for risks that are not in line with a basic lending arrangement. This includes amongst other aspects a review of the consistency of the ESG targets with the asset or activity of the borrower, consideration of the targets within our risk appetite etc. Some of these loans are an integral part of our climate and sustainable funding and financing target.

For accounting policy information see Accounting policies notes 3.8, 3.9, 3.10 and 3.12.

10 Financial instruments – classification continued

Judgment: classification of financial assets

The following tables analyse financial assets and liabilities in accordance with the categories of financial instruments in IFRS 9.

Assets	MFVTPL £m	FVOCI £m	Amortised cost £m	Other assets £m	Total £m
Cash and balances at central banks	—	—	144,832	—	144,832
Trading assets	45,577	—	—	—	45,577
Derivatives (1)	99,545	—	—	—	99,545
Settlement balances	—	—	2,572	—	2,572
Loans to bank - amortised cost (2)	—	—	7,139	—	7,139
Loans to customers - amortised cost (3)	—	—	366,340	—	366,340
Other financial assets (4)	787	16,973	13,135	—	30,895
Intangible assets	—	—	—	7,116	7,116
Other assets	—	—	—	9,176	9,176
Assets of disposal groups (5)	—	—	—	6,861	6,861
31 December 2022	145,909	16,973	534,018	23,153	720,053
Cash and balances at central banks			177,757		177,757
Trading assets	59,158				59,158
Derivatives (1)	106,139				106,139
Settlement balances			2,141		2,141
Loans to bank - amortised cost (2)			7,682		7,682
Loans to customers - amortised cost (3)			358,990		358,990
Other financial assets	317	37,266	8,562		46,145
Intangible assets				6,723	6,723
Other assets				8,242	8,242
Assets of disposal groups				9,015	9,015
31 December 2021	165,614	37,266	555,132	23,980	781,992

Liabilities	Held-for-trading £m	DFV £m	Amortised cost £m	Other liabilities £m	Total £m
Bank deposits (6)	—	—	20,441	—	20,441
Customer deposits	—	—	450,318	—	450,318
Settlement balances	—	—	2,012	—	2,012
Trading liabilities	52,808	—	—	—	52,808
Derivatives (1)	94,047	—	—	—	94,047
Other financial liabilities (7)	—	2,377	46,730	—	49,107
Subordinated liabilities	—	345	5,915	—	6,260
Notes in circulation	—	—	3,218	—	3,218
Other liabilities (8)	—	—	1,205	4,141	5,346
31 December 2022	146,855	2,722	529,839	4,141	683,557
Bank deposits (6)			26,279		26,279
Customer deposits			479,810		479,810
Settlement balances			2,068		2,068
Trading liabilities	64,598		—		64,598
Derivatives (1)	100,835		—		100,835
Other financial liabilities (7)		1,671	47,655		49,326
Subordinated liabilities		703	7,726		8,429
Notes in circulation			3,047		3,047
Other liabilities (8)			1,356	4,441	5,797
31 December 2021	165,433	2,374	567,941	4,441	740,189

(1) Includes net hedging derivatives assets of £143 million (2021 - £44 million) and net hedging derivatives liabilities of £132 million (2021 - £120 million).
(2) Includes items in the course of collection from other banks of £229 million (2021 - £67 million).
(3) Includes finance lease receivables of £8,402 million (2021 - £8,531 million).
(4) Includes amounts reclassified from amortised cost to FVTPL in relation to a mortgage portfolio. Refer to Note 8 for further information.
(5) Includes £5,397 million of assets of disposal groups reclassified from amortised cost to FVTPL during the year. The portfolio is classified as level 3 in the fair value hierarchy.
(6) Includes items in the course of transmission to other banks of £242 million (2021 - £56 million).
(7) The carrying amount of other customer accounts designated at fair value through profit or loss is the same as the principal amount for both periods. No amounts have been recognised in the profit or loss for changes in credit risk associated with these liabilities as the changes are immaterial both during the period and cumulatively.
(8) Includes lease liabilities of £1,118 million (2021 - £1,263 million) held at amortised cost.

10 Financial instruments – classification continued

Reclassification of mortgages from amortised cost to fair value through profit or loss

In June 2022 UBIDAC announced the cessation of new mortgage business to its customers. On 1 July 2022 UBIDAC mortgages in both its continuing and discontinued businesses were reclassified from amortised cost to fair value through profit or loss, reflecting the change in business model. We fair value these assets using a discounted cash flow method. Key inputs include assumptions around cash flows from legally binding sales agreements for those mortgage assets that form part of the assets of disposal groups.

The effect of the reclassification as at 1 July 2022 is shown below:

	Amortised cost £m	MFVTPL £m	Change in value £m
Amounts reclassified on balance sheet			
Loans to customers (1)	587	606	19
Assets of disposal groups (2)	10,676	10,383	(293)
	11,263	10,989	(274)

(1) Change in value recognised in continuing operations.
(2) Change in value recognised in discontinued operations.

Additional information on finance lease receivables

The following table shows the reconciliation of undiscounted finance lease receivables to net investment in finance leases:

	2022 £m	2021 £m
Amount receivable under finance leases		
Within 1 year	3,235	3,272
1 to 2 years	2,254	2,044
2 to 3 years	1,388	1,443
3 to 4 years	833	757
4 to 5 years	411	429
After 5 years	1,130	1,423
Lease payments total	9,251	9,368
Unguaranteed residual values	171	225
Future drawdowns	(13)	(21)
Unearned income	(889)	(891)
Present value of lease payments	8,520	8,681
Impairments	(118)	(150)
Net investment in finance leases	8,402	8,531

Additional information on reverse repos and repos

The following table shows the value of reverse repos and repos included within the below balance sheet captions:

	2022 £m	2021 £m
Reverse repos		
Trading assets	21,537	20,742
Loans to banks - amortised cost	277	189
Loans to customers - amortised cost	19,750	25,962
Repos		
Bank deposits	1,446	7,912
Customer deposits	9,829	14,541
Trading liabilities	23,740	19,389

Interest rate benchmark reform

NatWest Group continues to work on the transition of USD IBOR exposures to risk free rates in advance of the cessation date of 30 June 2023. Derivatives are expected to transition during April and May 2023 and other exposures in line with fallback provisions or deferred switches using widely accepted methodologies. The instruments yet to transition reflect an insignificant element of NatWest Group's exposures. Instruments with exposures to other rates transitioned at the end of 2021, or at the first contractual reset date, or at a date agreed with the counterparty.

10 Financial instruments – classification continued

The level of exposures without explicit or agreed conversion provisions as of the preceding year were as follows:

	Rates subject to IBOR reform			
2021	GBP LIBOR £m	USD IBOR £m	Other IBOR £m	Total £m
Trading assets	62	90	—	152
Loans to banks - amortised cost	—	11	—	11
Loans to customers - amortised cost	4,788	4,565	267	9,620
Other financial assets	864	768	—	1,632
Bank deposits	—	37	—	37
Trading liabilities	31	166	—	197
Other financial liabilities	2,390	7,023	131	9,544
Subordinated liabilities	—	90	—	90
Loan commitments (1)	1,016	6,366	55	7,437
Derivatives notional (£bn)	4	1,152	—	1,156

(1) Certain loan commitments are multi-currency facilities. Where these are fully undrawn, they are allocated to the principal currency of the facility. Where the facilities are partly drawn, the remaining loan commitment is allocated to the currency with the largest drawn amount.

At 31 December 2021, NatWest Group held certain currency swaps with both legs subject to IBOR reform, for which only the GBP LIBOR leg has an explicit or agreed conversion provisions as of 31 December 2021, but not the entire contract. These include currency swaps of GBP LIBOR of £8.7 billion with USD IBOR £8.2 billion and Other IBOR £0.5 billion; currency swaps of USD IBOR of £117 billion with GBP LIBOR £91.7 billion and Other IBOR £25.3 billion; currency swaps of EURIBOR of £0.1 billion with GBP LIBOR £0.1 billion; currency swaps of Other IBOR of £0.4 billion with USD IBOR £0.4 billion

AT1 issuances

NatWest Group has issued certain capital instruments, AT1, under which reset clauses are linked to IBOR rates subject to reform. Where under the contractual terms of the instrument the coupon resets to a rate which has IBOR as a specified component of its pricing structure, these are subject to IBOR reform and listed below:

	31 December 2021 £m
US$1.15 billion 8% notes	734

10 Financial instruments – classification continued

Financial instruments – financial assets and liabilities that can be offset

The tables below present information on financial assets and financial liabilities that are offset on 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					
2022	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 the effect of netting agreements and related collateral £m	Instruments outside netting agreements £m	Balance sheet total £m
Derivative assets	**117,606**	**(18,730)**	**98,876**	**(77,365)**	**(14,079)**	**(4,571)**	**2,861**	**669**	**99,545**
Derivative liabilities	**115,177**	**(22,111)**	**93,066**	**(77,365)**	**(9,761)**	**(1,185)**	**4,755**	**981**	**94,047**
Net position (1)	**2,429**	**3,381**	**5,810**	**—**	**(4,318)**	**(3,386)**	**(1,894)**	**(312)**	**5,498**
Trading reverse repos	**35,612**	**(14,510)**	**21,102**	**(2,445)**	**—**	**(18,458)**	**199**	**435**	**21,537**
Trading repos	**33,767**	**(14,510)**	**19,257**	**(2,445)**	**—**	**(16,812)**	**—**	**4,483**	**23,740**
Net position	**1,845**	**—**	**1,845**	**—**	**—**	**(1,646)**	**199**	**(4,048)**	**(2,203)**
Non trading reverse repos	**25,630**	**(5,702)**	**19,928**	**—**	**—**	**(19,928)**	**—**	**98**	**20,026**
Non trading repos	**16,977**	**(5,702)**	**11,275**	**—**	**—**	**(11,275)**	**—**	**—**	**11,275**
Net position	**8,653**	**—**	**8,653**	**—**	**—**	**(8,653)**	**—**	**98**	**8,751**
2021									
Derivative assets	113,220	(7,961)	105,259	(85,006)	(15,035)	(2,428)	2,790	880	106,139
Derivative liabilities	108,594	(8,568)	100,026	(85,006)	(9,909)	(2,913)	2,198	809	100,835
Net position (1)	4,626	607	5,233	—	(5,126)	485	592	71	5,304
Trading reverse repos	44,529	(24,422)	20,107	(900)	—	(19,136)	71	635	20,742
Trading repos	42,664	(24,422)	18,242	(900)	—	(17,341)	1	1,147	19,389
Net position	1,865	—	1,865	—	—	(1,795)	70	(512)	1,353
Non trading reverse repos	33,729	(7,594)	26,135	—	—	(26,135)	—	16	26,151
Non trading repos	30,047	(7,594)	22,453	—	—	(22,453)	—	—	22,453
Net position	3,682	—	3,682	—	—	(3,682)	—	16	3,698

(1) The net IFRS offset balance of £3,381 million (2021 - £607 million)relates to variation margin netting reflected on other balance sheet lines.

11 Financial instruments – valuation

Financial instruments recognised at fair value are revalued using techniques that can include observable inputs (pricing information that is readily available in the market, for example UK Government securities), and unobservable inputs (pricing information that is not readily available, for example unlisted securities). Gains and losses are recognised in the income statement and statement of comprehensive income as appropriate. This note presents information on the valuation of financial instruments.

The table below provides an overview of the various sections contained within the note.

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.

NatWest 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 see Accounting policies notes 3.8 and 3.12.

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(D) = Descriptive; (T) = Table

11 Financial instruments – valuation continued

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 CLOs, most bank loans, repos and reverse repos, state and municipal obligations, most notes issued, certain money market securities, loan commitments and most OTC derivatives.

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

Valuation techniques

NatWest 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 guarantee 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 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 - these express 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 are determined with reference to available prices of entities with similar characteristics.

Interest rates - these are principally based on interest rate swap prices referencing benchmark interest rates. Benchmark rates include Interbank Offered Rates (IBOR) and the Overnight Index Swap (OIS) rate, 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.

11 Financial instruments – valuation continued

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

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

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

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

Valuation control

NatWest 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. This review is performed by an independent price verification (IPV) team.

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

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

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

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

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

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

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 NatWest 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 over the counter (OTC) derivative, assessing the liquidity of the market with no central exchange is more challenging.

11 Financial instruments – valuation continued

A key related matter is where a market moves from liquid to illiquid or vice versa. Where this movement is considered temporary, the fair value level is not changed. For example, if there is little market trading in a product on a reporting date but at the previous reporting date and during the intervening period the market has been liquid. In this case, the instrument will continue to be classified at the same level in the hierarchy. This is to provide consistency so that transfers between levels are driven by genuine changes in market liquidity and do not reflect short term or seasonal effects. Material movements between levels are reviewed quarterly by the Business and IPV. The breadth and depth of the IPV data allows for a rules-based quality assessment to be made of market activity, liquidity, and pricing uncertainty, which assists with the process of allocation to an appropriate level. Where suitable independent pricing information is not readily available, the quality assessment will result in the instrument being assessed as level 3.

The table below shows the assets and liabilities held by NatWest Group split by fair value hierarchy level. Level 1 are considered the most liquid instruments, and level 3 the most illiquid, valued using expert judgment and hence carry the most significant price uncertainty.

	2022				2021			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets								
Trading assets								
Loans	—	35,260	395	35,655	—	33,482	721	34,203
Securities	7,463	2,458	1	9,922	19,563	5,371	21	24,955
Derivatives	5	98,533	1,007	99,545	—	105,222	917	106,139
Other financial assets								
Loans	—	172	727	899	—	359	207	566
Securities	10,380	6,278	203	16,861	28,880	7,951	186	37,017
Total financial assets held at fair value	17,848	142,701	2,333	162,882	48,443	152,385	2,052	202,880
As % of total fair value assets	11 %	88 %	1 %		24 %	75 %	1 %	
Liabilities								
Trading liabilities								
Deposits	—	42,486	1	42,487	—	38,658	2	38,660
Debt securities in issue	—	797	—	797	—	974	—	974
Short positions	7,462	2,062	—	9,524	20,507	4,456	1	24,964
Derivatives	2	93,070	975	94,047	—	100,229	606	100,835
Other financial liabilities								
Debt securities in issue	—	1,327	—	1,327	—	1,103	—	1,103
Other deposits	—	1,050	—	1,050	—	568	—	568
Subordinated liabilities	—	345	—	345	—	703	—	703
Total financial liabilities held at fair value	7,464	141,137	976	149,577	20,507	146,691	609	167,807
As % of total fair value liabilities	5 %	94 %	1 %		12 %	88 %	0 %	

(1) Transfers between levels are deemed to have occurred at the beginning of the quarter in which the instrument was transferred.
(2) For an analysis of debt securities held at mandatory fair value through profit or loss by issuer as well as ratings and derivatives, by type and contract, refer to Risk and capital management – Credit risk.

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	2022 £m	2021 £m
Funding – FVA	173	90
Credit – CVA	300	390
Bid – Offer	130	113
Product and deal specific	141	119
	744	712

11 Financial instruments – valuation continued

Funding valuation adjustments on the group defined benefit pension plan increased during the year, primarily driven by increases in GBP interest rates.

The decrease in CVA was driven by a reduction in exposures, primarily due to increases in interest rates and trade exit activity, partially offset by the net impact of credit spreads widening and specific counterparty activity. The increase in bid-offer was driven by the net impact of risk changes, wider bid-offer spreads and an increase in the estimated costs of exiting certain less liquid risks. The increase in product and deal specific was driven by credit spreads widening and specific counterparty activity.

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

The CVA is calculated on a portfolio basis reflecting an estimate of the amount a third party would charge to assume the credit risk.

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

Bid-offer

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

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

Netting is applied on a portfolio basis to reflect the value at which NatWest 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. On 31 December 2022, net gains of £74 million (2021 - £71 million) were carried forward. During the year, net gains of £97 million (2021 - £103 million) were deferred and £94 million (2021 - £94 million) were recognised in the income statement.

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

NatWest 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 NatWest Group's creditworthiness when pricing trades.

11 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.

				2022		2021	
Financial instrument	Valuation technique	Unobservable inputs	Units	Low	High	Low	High
Trading assets and Other financial assets							
Loans	Price-based	Price	%	**—**	**113**	—	106
	Discount cash flow	Credit spreads	bps	**56**	**114**	40	102
	Discount cash flow	Discount margin	bps	**—**	**—**	46	55
Debt securities	Price-based	Price	%	**—**	**225**	—	240
Equity Shares	Price-based	Price	GBP	**—**	**34,027**	—	30,378
	Price-based	Price	%	**—**	**30**	—	7
	Discount cash flow	Discount margin	%	**6**	**8**	6	8
	Net asset valuation	Fund NAV	%	**80**	**120**	80	120
Derivative assets and liabilities							
Credit derivatives	Credit derivative pricing	Credit spreads	bps	**7**	**530**	6	635
	Option pricing	Correlation	%	**(15)**	**95**	(15)	95
		Volatility	%	**30**	**80**	30	108
		Upfront points	%	**—**	**99**	—	100
		Recovery rate	%	**—**	**60**	—	60
Interest rate & FX derivatives	Option pricing	Correlation	%	**(50)**	**100**	(50)	100
		Volatility	%	**30**	**127**	17	77
		Constant Prepayment Rate	%	**2**	**21**	2	16
		Mean Reversion	%	**—**	**92**	—	92
		Inflation volatility	%	**1**	**2**	1	2
		Inflation rate	%	**2**	**3**	2	3

(1) Valuation for private equity investments may be estimated by looking at past prices of similar stocks and from valuation statements where valuations are usually derived from earnings measures such as EBITDA or net asset value (NAV). Similarly, for equity or bond fund investments, prices may be estimated from valuation or credit statements using NAV or similar measures.
(2) NatWest Group does not have any material liabilities measured at fair value that are issued with an inseparable third-party credit enhancement.

11 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.

	2022			2021		
	Level 3 £m	Favourable £m	Unfavourable £m	Level 3 £m	Favourable £m	Unfavourable £m
Assets						
Trading assets						
Loans	**395**	**10**	**(10)**	721	10	(10)
Securities	**1**	**—**	**—**	21	—	—
Derivatives	**1,007**	**50**	**(50)**	917	60	(70)
Other financial assets						
Loans	**727**	**—**	**(10)**	207	10	(10)
Securities	**203**	**20**	**(30)**	186	20	(20)
	2,333	**80**	**(100)**	2,052	100	(110)
Liabilities						
Trading liabilities						
Deposits	**1**	**—**	**—**	2	—	—
Debt securities in issue	**—**	**—**	**—**	—	—	—
Short positions	**—**	**—**	**—**	1	—	—
Derivatives	**975**	**30**	**(30)**	606	30	(30)
	976	**30**	**(30)**	609	30	(30)

11 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.

	2022				2021			
	Trading assets (2) £m	Other financial assets (3) £m	Total assets £m	Total liabilities £m	Trading assets (2) £m	Other financial assets (3) £m	Total assets £m	Total liabilities £m
At 1 January	1,658	394	2,052	609	1,388	335	1,723	894
Amounts recorded in the income statement (1)	157	(14)	143	381	(93)	(29)	(122)	(90)
Amounts recorded in the statement of comprehensive income	—	(20)	(20)	—	—	23	23	—
Level 3 transfers in	194	532	726	81	125	3	128	20
Level 3 transfers out	(269)	(68)	(337)	(64)	(104)	(6)	(109)	(168)
Purchases/originations	629	185	814	382	965	452	1,416	305
Settlements/other decreases	(115)	—	(115)	(41)	(47)	(364)	(411)	(28)
Sales	(857)	(101)	(958)	(378)	(573)	(17)	(590)	(321)
Foreign exchange and other	6	22	28	6	(3)	(3)	(6)	(3)
At 31 December	1,403	930	2,333	976	1,658	394	2,052	609
Amounts recorded in the income statement in respect of balances held at year end:								
- unrealised	157	(16)	141	381	(93)	(32)	(126)	(90)

(1) There were £224 million net losses on trading assets and liabilities (2021 - £3 million net losses) recorded in income from trading activities. Net losses on other instruments of £14 million (2021 - £29 million net losses) were recorded in other operating income and interest income as appropriate.
(2) Trading assets comprise assets 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.

11 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.

	Items where fair value approximates carrying value £bn	Carrying value £bn	Fair value £bn	Fair value hierarchy level		
				Level 1 £bn	Level 2 £bn	Level 3 £bn
2022						
Financial assets						
Cash and balances at central banks	**144.8**	**—**	**—**	**—**	**—**	**—**
Settlement balances	**2.6**	**—**	**—**	**—**	**—**	**—**
Loans to banks	**0.1**	**7.0**	**7.0**	**—**	**4.2**	**2.8**
Loans to customers	**—**	**366.3**	**354.5**	**—**	**20.3**	**334.2**
Other financial assets - securities	**—**	**13.1**	**12.8**	**3.6**	**3.2**	**6.0**
2021						
Financial assets						
Cash and balances at central banks	177.8	—	—	—	—	—
Settlement balances	2.1	—	—	—	—	—
Loans to banks	0.1	7.5	7.5	—	5.0	2.5
Loans to customers	—	359.0	354.1	—	28.0	326.1
Other financial assets - securities	—	8.6	8.6	4.4	0.7	3.5
2022						
Financial liabilities						
Bank deposits	**4.7**	**15.7**	**15.3**	**—**	**13.1**	**2.2**
Customer deposits	**407.0**	**43.3**	**43.3**	**—**	**12.7**	**30.6**
Settlement balances	**2.0**	**—**	**—**	**—**	**—**	**—**
Other financial liabilities - debt securities in issue	**—**	**46.7**	**46.1**	**—**	**40.7**	**5.4**
Subordinated liabilities	**—**	**5.9**	**5.6**	**—**	**5.5**	**0.1**
Notes in circulation	**3.2**	—	—	—	—	—
2021						
Financial liabilities						
Bank deposits	4.9	21.4	21.0	—	18.7	2.3
Customer deposits	442.4	37.4	37.6	—	18.1	19.5
Settlement balances	2.1	—	—	—	—	—
Other financial liabilities - debt securities in issue	—	47.7	48.6	—	41.4	7.2
Subordinated liabilities	—	7.7	8.3	—	8.2	0.1
Notes in circulation	3.0	—	—	—	—	—

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, notes in circulation 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, NatWest Group's loans are segregated into appropriate portfolios reflecting the characteristics of the constituent loans. Two principal methods are used to estimate fair value:

(a) Contractual 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.

(b) Expected cash flows (unadjusted for credit losses) are discounted at the current offer rate for the same or similar products. The current methodology caps all loan values at par rather than modelling clients' option to repay loans early. This approach is adopted for lending portfolios in Retail Banking, Ulster Bank RoI, Commercial & Institutional (SME loans) and Private Banking in order to reflect the homogeneous nature of these portfolios.

Debt securities and subordinated liabilities

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

Bank and customer deposits

Fair values of deposits are estimated using discounted cash flow valuation techniques. Where required, methodologies can be revised as additional information and valuation inputs become available.

12 Financial instruments - maturity analysis

Remaining maturity

This note shows the maturity profile of NatWest Group's financial assets and liabilities by contractual date of maturity and contractual cash flows.

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

	2022			2021		
	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	**144,832**	**—**	**144,832**	177,757	—	177,757
Trading assets	**35,944**	**9,633**	**45,577**	40,263	18,895	59,158
Derivatives	**38,107**	**61,438**	**99,545**	34,538	71,601	106,139
Settlement balances	**2,572**	**—**	**2,572**	2,141	—	2,141
Loans to banks - amortised cost	**6,872**	**267**	**7,139**	7,425	257	7,682
Loans to customers - amortised cost	**84,289**	**282,051**	**366,340**	103,689	255,301	358,990
Other financial assets	**6,128**	**24,767**	**30,895**	11,151	34,994	46,145
Liabilities						
Bank deposits	**7,799**	**12,642**	**20,441**	13,715	12,564	26,279
Customer deposits	**448,821**	**1,497**	**450,318**	478,801	1,009	479,810
Settlement balances	**2,012**	**—**	**2,012**	2,068	—	2,068
Trading liabilities	**42,760**	**10,048**	**52,808**	41,664	22,934	64,598
Derivatives	**39,331**	**54,716**	**94,047**	34,593	66,242	100,835
Other financial liabilities	**13,796**	**35,311**	**49,107**	16,060	33,266	49,326
Subordinated liabilities	**973**	**5,287**	**6,260**	1,375	7,054	8,429
Notes in circulation	**3,218**	**—**	**3,218**	3,047	—	3,047
Lease liabilities	**137**	**981**	**1,118**	238	1,025	1,263

Assets and liabilities by contractual cash flows up to 20 years

The tables on the following page, 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 NatWest 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 the repayment of a financial instrument 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 NatWest 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 assets and liabilities that are repayable after 20 years or where the counterparty has no right to repayment of the principal are excluded from the table, as are 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 NatWest Group's liquidity position.

MFVTPL assets of £145.8 billion (2021 - £165.6 billion) and HFT liabilities of £146.7 billion (2021 - £165.3 billion) have been excluded from the following tables.

12 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 up to 20 years						
Cash and balances at central banks	144,832	—	—	—	—	—
Derivatives held for hedging	130	345	28	41	(44)	43
Settlement balances	2,572	—	—	—	—	—
Loans to banks - amortised cost	5,254	1,621	17	288	—	—
Loans to customers - amortised cost	50,923	43,417	76,278	55,128	85,038	100,085
Other financial assets (1)	2,771	4,507	8,391	7,835	5,706	2,524
Finance lease	96	267	857	482	549	296
	206,578	50,157	85,571	63,774	91,249	102,948
Liabilities by contractual maturity up to 20 years						
Bank deposits	6,690	1,445	5,662	8,503	89	—
Customer deposits	437,830	11,389	1,252	2	14	20
Settlement balances	2,012	—	—	—	—	—
Derivatives held for hedging	280	(371)	586	306	116	85
Other financial liabilities	6,720	6,640	18,833	13,906	7,361	294
Subordinated liabilities	96	1,073	2,690	1,897	1,541	328
Other liabilities - Notes in circulation	3,218	—	—	—	—	—
Lease liabilities	41	113	260	203	318	254
	456,887	20,289	29,283	24,817	9,439	981
Guarantees and commitments - notional amount						
Guarantees (2)	3,150	—	—	—	—	—
Commitments (3)	118,779	—	—	—	—	—
	121,929	—	—	—	—	—

2021						
Assets by contractual maturity up to 20 years						
Cash and balances at central banks	177,757	—	—	—	—	—
Derivatives held for hedging	(23)	(32)	72	15	10	17
Settlement balances	2,141	—	—	—	—	—
Loans to banks - amortised cost	5,735	1,689	21	—	—	—
Loans to customers - amortised cost	65,760	43,144	63,979	45,057	73,044	90,115
Other financial assets (1)	3,924	7,576	10,467	8,048	7,444	5,523
Finance lease	290	340	746	504	704	377
	255,584	52,717	75,285	53,624	81,202	96,032
Liabilities by contractual maturity up to 20 years						
Bank deposits	13,292	421	566	12,003	—	—
Customer deposits	473,123	5,440	1,155	73	4	19
Settlement balances	2,068	—	—	—	—	—
Derivatives held for hedging	(57)	(31)	561	155	(152)	(198)
Other financial liabilities	6,967	9,293	16,953	10,062	7,905	292
Subordinated liabilities	66	1,604	3,481	2,170	1,496	563
Other liabilities- Notes in circulation	3,047	—	—	—	—	—
Lease liabilities	74	161	220	167	281	251
	498,580	16,888	22,936	24,630	9,534	927
Guarantees and commitments - notional amount						
Guarantees (2)	2,055	—	—	—	—	—
Commitments (3)	118,536	—	—	—	—	—
	120,591	—	—	—	—	—

(1) Other financial assets exclude equity shares.
(2) NatWest Group is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. NatWest Group expects most guarantees it provides to expire unused.
(3) NatWest 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. NatWest Group does not expect all facilities to be drawn, and some may lapse before drawdown.

13 Trading assets and liabilities

Trading assets and liabilities comprise assets and liabilities held at fair value and classified as held-for- trading. Financial instruments are classified as held for trading if they are held for the purpose of selling or repurchasing them in the short term, to make a spread between purchase and sale price or held to take advantage of movements in prices and yields.

For accounting policy information see Accounting policies note 3.8.

	2022 £m	2021 £m
Assets		
Loans		
Reverse repos	**21,537**	20,742
Collateral given	**13,005**	12,047
Other loans	**1,113**	1,414
Total loans	**35,655**	34,203
Securities		
Central and local government		
- UK	**2,205**	6,919
- US	**2,345**	3,329
- other	**2,799**	10,929
Financial institutions and corporate	**2,573**	3,778
Total securities	**9,922**	24,955
Total	**45,577**	59,158
Liabilities		
Deposits		
Repos	**23,740**	19,389
Collateral received	**17,680**	17,718
Other deposits	**1,067**	1,553
Total deposits	**42,487**	38,660
Debt securities in issue	**797**	974
Short positions	**9,524**	24,964
Total	**52,808**	64,598

14 Derivatives

Derivative is a term covering a wide range of financial instruments that derive their fair value from an underlying rate or price, for example interest rates or exchange rates (the underlying). NatWest Group uses derivatives as a part of its trading activities, to manage its own risks such as interest rate, foreign exchange, or credit risk and in certain customer transactions. This note shows contracted volumes of derivatives, how they are used for hedging purposes and more specifically the effects of the application of hedge accounting.

For accounting policy information see Accounting policies note 3.8 and 3.12.

	2022			2021		
	Notional £bn	Assets £m	Liabilities £m	Notional £bn	Assets £m	Liabilities £m
Exchange rate contracts	**3,168**	**45,829**	**45,237**	3,167	38,517	39,286
Interest rate contracts	**10,742**	**53,480**	**48,535**	8,919	67,458	61,206
Credit derivatives	**15**	**236**	**275**	14	154	343
Equity and commodity contracts	**—**	**—**	**—**	—	10	—
		99,545	**94,047**		106,139	100,835

NatWest 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.

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

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

Cash flow hedges of interest rate risk relate to exposures to the variability in future interest payments and receipts due to the movement of benchmark 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 benchmark rates, most notably USD LIBOR, SOFR, EURIBOR, SONIA and the Bank of England Official Bank Rate. The variability in cash flows due to movements in the relevant benchmark rate is hedged; this risk component is identified using the risk management systems of NatWest Group and encompasses the majority of cash flow variability risk.

14 Derivatives continued

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 benchmark interest rate risk component of the hedged item. The significant benchmarks identified as risk components are USD LIBOR, SOFR, EURIBOR and SONIA. These risk components are identified using the risk management systems of NatWest Group and encompass the majority of the hedged item's fair value risk.

NatWest Group hedges the exchange rate risk of its net investment in foreign currency denominated operations with currency borrowings and forward foreign exchange contracts. NatWest 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 NatWest 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 and fair value hedge relationships, and net investment hedging, NatWest Group determines that there is an adequate level of offsetting between the hedged item and hedging instrument at inception and on an ongoing basis. This is achieved by comparing movements in the fair value of the expected highly probable forecast cash flows/fair value of the hedged item attributable to the hedged risk with movements in the fair value of the expected changes in cash flows from the hedging instruments. The method used for comparing movements is either regression testing or the dollar offset method. The method for testing effectiveness and the period over which the test is performed depends on the applicable risk management strategy and is applied consistently to each risk management strategy. Hedge effectiveness is assessed on a cumulative basis and the determination of effectiveness is in line with the requirements of IAS39.

NatWest Group uses either the actual ratio between the hedged item and hedging instrument(s) or one that minimises hedge ineffectiveness to establish the hedge ratio for hedge accounting. Hedge ineffectiveness is measured in line with the requirements of IAS39 and recognised in the income statement as it arises.

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

	2022				2021			
	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	**58.7**	**1,554**	**3,009**	**482**	65.6	1,176	2,057	897
Cash flow hedging								
Interest rate contracts	**167.6**	**2,681**	**6,207**	**(3,342)**	133.1	952	1,149	(931)
Exchange rate contracts	**6.3**	**142**	**112**	**(3)**	7.3	30	109	27
Net investment hedging								
Exchange rate contracts	**0.5**	**1**	**9**	**4**	0.5	11	1	7
	233.1	**4,378**	**9,337**	**(2,859)**	206.5	2,169	3,316	—
IFRS netting/Clearing house settlements		**(4,235)**	**(9,205)**			(2,125)	(3,196)	
		143	**132**			44	120	

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

14 Derivatives continued

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

2022	0-3 months £bn	3-12 months £bn	1-3 years £bn	3-5 years £bn	5-10 years £bn	10-20 years £bn	20+ years £bn	Total £bn
Fair value hedging								
Hedging assets - interest rate risk	**0.5**	**1.9**	**4.7**	**4.9**	**4.2**	**2.5**	**1.1**	**19.8**
Hedging liabilities - interest rate risk	**1.0**	**2.9**	**14.6**	**10.3**	**9.6**	**0.5**	**—**	**38.9**
Cash flow hedging								
Hedging assets								
Interest rate risk	**6.6**	**9.4**	**46.5**	**21.9**	**10.1**	**—**	**—**	**94.5**
Average fixed interest rate (%)	**1.36**	**1.98**	**1.71**	**2.04**	**1.02**	**3.12**	**—**	**1.72**
Hedging liabilities								
Interest rate risk	**17.3**	**26.8**	**15.7**	**5.1**	**7.5**	**0.7**	**—**	**73.1**
Average fixed interest rate (%)	**1.27**	**0.95**	**2.75**	**1.03**	**2.68**	**4.55**	**—**	**1.63**
Hedging assets								
Exchange rate risk	**0.1**	**—**	**—**	**—**	**—**	**—**	**—**	**0.1**
Hedging liabilities								
Exchange rate risk	**—**	**1.1**	**2.8**	**2.1**	**0.2**	**—**	**—**	**6.2**
Net investment hedging								
Exchange rate risk	**0.5**	**—**	**—**	**—**	**—**	**—**	**—**	**0.5**
2021								
Fair value hedging								
Hedging assets - interest rate risk	0.9	2.5	5.5	5.7	6.2	4.9	4.5	30.2
Hedging liabilities - interest rate risk	1.1	4.2	11.8	9.3	8.4	0.6	0.0	35.4
Cash flow hedging								
Hedging assets								
Interest rate risk	5.4	8.1	14.3	24.5	11.4	—	—	63.7
Average fixed interest rate (%)	1.40	1.19	1.35	0.65	0.82	—	—	0.97
Hedging liabilities								
Interest rate risk	8.8	21.1	33.0	3.3	2.5	0.7	—	69.4
Average fixed interest rate (%)	0.50	0.24	0.41	0.47	1.01	4.55	—	0.44
Hedging assets								
Exchange rate risk	—	—	—	—	—	—	—	—
Hedging liabilities								
Exchange rate risk	0.1	2.4	3.5	1.3	—	—	—	7.3
Net investment hedging								
Exchange rate risk	0.5	—	—	—	—	—	—	0.5

For cash flow hedging of exchange rate risk, the average foreign exchange rates applicable across the relationships were as below for the main currencies hedged.

	2022	2021
INR/GBP	**100.54**	106.58
USD/GBP	**1.29**	1.38
CHF/GBP	**1.15**	1.25
JPY/GBP	**132.89**	132.93
JPY/USD	**128.29**	n/a
NOK/USD	**9.21**	n/a
CNH/GBP	**n/a**	8.74

For net investment hedging of exchange rate risk, the average foreign exchange rates applicable were as below for the main currencies hedged.

	2022	2021
SEK/GBP	**13.23**	11.74
DKK/GBP	**n/a**	8.85
NOK/GBP	**12.34**	12.12
AED/USD	**4.42**	3.67
USD/GBP	**1.20**	1.32

14 Derivatives continued

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

2022	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	Impact on hedged items ceased to be adjusted for hedging gains or losses £m
Fair value hedging - interest rate				
Loans to banks and customers - amortised cost	**5,764**	**(526)**	**(1,236)**	**63**
Other financial assets - securities	**12,897**	**(922)**	**(2,525)**	**(2)**
Total	**18,661**	**(1,448)**	**(3,761)**	**61**
Bank and customer deposits	**565**	**(3)**	**3**	**—**
Other financial liabilities - debt securities in issue	**35,856**	**(2,222)**	**2,790**	**—**
Subordinated liabilities	**5,504**	**(547)**	**526**	**—**
Total	**41,925**	**(2,772)**	**3,319**	**—**
Cash flow hedging - interest rate				
Loans to banks and customer - amortised cost (2)	**93,212**		**5,263**	
Other financial assets - securities	**1,176**		**73**	
Total	**94,388**		**5,336**	
Bank and customer deposits	**72,610**	**—**	**(2,008)**	**—**
Other financial liabilities - debt securities in issue	**571**	**—**	**(46)**	**—**
Total	**73,181**	**—**	**(2,054)**	**—**
Cash flow hedging - exchange rate				
Loans to banks and customer - amortised cost (2)	**—**		**—**	
Other financial assets - securities	**—**		**—**	
Total	**—**		**—**	
Other financial liabilities - debt securities in issue	**4,141**		**(2)**	
Subordinated liabilities	**—**		**—**	
Other	**204**		**5**	
Total	**4,345**		**3**	
2021				
Fair value hedging - interest rate				
Loans to banks and customers - amortised cost	6,603	701	(478)	69
Other financial assets - securities	30,882	518	(1,576)	—
Total	37,485	1,219	(2,054)	69
Other financial liabilities - debt securities in issue	34,371	454	953	—
Subordinated liabilities	6,235	(9)	255	—
Total	40,606	445	1,208	—
Cash flow hedging - interest rate				
Loans to banks and customers - amortised cost	63,025		1,984	
Other financial assets - securities	714		26	
Total	63,739		2,010	
Bank and customer deposits	68,383		(1,084)	
Other financial liabilities - debt securities in issue	1,006		(21)	
Total	69,389		(1,105)	
Cash flow hedging - exchange rate				
Loans to banks and customer - amortised cost	21		—	
Other financial assets - securities	2		—	
Total	23		—	
Cash flow hedging - exchange rate				
Other financial liabilities - debt securities in issue	6,337		(5)	
Subordinated liabilities	742		(12)	
Other	200		(10)	
Total	7,279		(27)	

(1) The change in fair value used for hedge ineffectiveness includes instruments that were derecognised in the year.
(2) Includes cash and balances at central banks.

14 Derivatives continued

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

	2022		2021	
	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m
Continuing				
Interest rate risk	**(3,576)**	**—**	(295)	—
Foreign exchange risk	**16**	**(85)**	23	53
De-designated				
Interest rate risk	**(297)**	**—**	(297)	—
Foreign exchange risk	**20**	**(880)**	10	(759)
Total	**(3,837)**	**(965)**	(559)	(706)

	2022		2021	
	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m
Amount recognised in equity				
Interest rate risk	**(2,997)**	**(64)**	(700)	—
Foreign exchange risk	**24**	**(202)**	13	88
Total	**(2,973)**	**(266)**	(687)	88
Amount transferred from equity to earnings				
Interest rate risk to net interest income	**(252)**	**—**	(181)	—
Interest rate risk to non-interest income (1)	**(21)**	**—**	20	—
Interest rate risk to operating expenses	**(14)**	**—**	—	—
Foreign exchange risk to net interest income	**(29)**	**—**	(4)	2
Foreign exchange risk to non-interest income	**15**	**7**	1	(2)
Foreign exchange risk to operating expenses	**(3)**	**—**	3	—
Total	**(304)**	**7**	(161)	—

(1) There was £21 million (2021 - £20 million) reclassified with the cash flow reserve to earnings due to forecasted cash flows that are no longer expected to occur.

Hedge ineffectiveness recognised in other operating income comprises:

	2022 £m	2021 £m	2020 £m
Fair value hedging			
(Loss)/gain on hedged items attributable to the hedged risk	**(442)**	(846)	877
Gain/(loss) on the hedging instruments	**482**	897	(675)
Fair value hedging ineffectiveness	**40**	51	2
Cash flow hedging			
Interest rate risk	**(60)**	(26)	22
Cash flow hedging ineffectiveness	**(60)**	(26)	22
Total	**(20)**	25	24

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).

15 Loan impairment provisions

Loan exposure and impairment metrics

There is a risk that customers and counterparties fail to meet their contractual obligation to settle outstanding amounts, known as expected credit losses (ECL). The calculation of ECL considers historic, current and forward-looking information to determine the amount we do not expect to recover. ECL is recognised on current and potential exposures, and contingent liabilities.

For accounting policy information see Accounting policies note 2.3. Further disclosures on credit risk and information on ECL methodology are shown from page 176 of Exhibit 15.2.

The table below summarises loans and credit impairment measures within the scope of IFRS 9 Expected credit losses framework.

	2022 £m	2021 £m
Loans - amortised cost and FVOCI		
Stage 1	**325,224**	330,824
Stage 2	**46,833**	33,981
Stage 3	**5,096**	5,022
Of which: individual	***1,121***	*1,215*
Of which: collective	***3,975***	*3,807*
	377,153	369,827
ECL provisions (1)		
- Stage 1	**632**	302
- Stage 2	**1,043**	1,478
- Stage 3	**1,759**	2,026
Of which: individual	***287***	*363*
Of which: collective	***1,472***	*1,663*
	3,434	3,806
ECL provision coverage (2)		
- Stage 1 (%)	**0.19**	0.09
- Stage 2 (%)	**2.23**	4.35
- Stage 3 (%)	**34.52**	40.34
	0.91	1.03
Continuing operations		
Impairment (releases)/losses		
ECL (release)/charge (3,4)	**337**	(1,173)
Stage 1	**(290)**	(1,317)
Stage 2	**393**	(164)
Stage 3	**234**	308
Of which: individual	***54***	*20*
Of which: collective	***180***	*288*
Amounts written off	**482**	876
Of which: individual	***168***	*455*
Of which: collective	***314***	*421*

(1) Includes loans to customers and banks.
(2) Includes £3 million (2021 - £5 million) related to assets classified as FVOCI and £0.1 billion (2021 - £0.1 billion related to off-balance sheet exposures.
(3) ECL provisions coverage is calculated as total ECL provisions divided by loans – amortised cost and FVOCI. It is calculated on third party loans and total ECL provisions.
(4) Includes a £3 million charge (2021 - £3 million release) related to other financial assets, of which nil (2021 - £2 million release) related to assets classified as FVOCI, and £5 million release (2021 - £34 million release) related to contingent liabilities.
(5) The table shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to Financial instruments within the scope of the IFRS 9 ECL framework for further details. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totalling £143.3 billion (2021 - £176.3 billion) and debt securities of £29.9 billion (2021 – £44.9 billion).

15 Loan impairment provisions continued

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 2.3 sets out how the expected loss approach is applied. At 31 December 2022, customer loan impairment provisions amounted to £3,434 million (2021 - £3,806 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.

16 Other financial assets

Other financial assets consist of debt securities, equity shares and loans that are not held for trading. Balances consist of local and central government securities, a component part of NatWest Group's liquidity portfolio.

For accounting policy information see Accounting policy 3.8.

	Debt securities							
	Central and local government			Other debt		Equity shares	Loans	Total
2022	UK £m	US £m	Other £m	£m	Total £m	£m	£m	£m
Mandatory fair value through profit or loss	—	—	—	2	2	3	782	787
Fair value through other comprehensive income (1)	802	7,175	1,757	6,765	16,499	357	117	16,973
Amortised cost	2,562	937	54	9,582	13,135	—	—	13,135
Total	3,364	8,112	1,811	16,349	29,636	360	899	30,895
2021								
Mandatory fair value through profit or loss	—	—	—	6	6	13	298	317
Fair value through other comprehensive income (1)	11,938	10,086	5,604	9,058	36,686	312	268	37,266
Amortised cost	3,821	156	81	4,504	8,562	—	—	8,562
Total	15,759	10,242	5,685	13,568	45,254	325	566	46,145

(1) Upon initial recognition, NatWest Group occasionally irrevocably designates some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 Financial instruments: presentation, are not held for trading or they are held for strategic purposes. Such classification is determined on an instrument-by-instrument basis. Gains and losses on these equity instruments are not recycled to the income statement and dividends are recognised in profit or loss except when they represent a recovery of part of the cost of the instrument, in which case such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

During the year NatWest Group acquired £146 million of equity shares in Permanent TSB Group Holdings p.l.c. as part consideration on the sale of certain assets. Refer to Note 8 for additional information on assets of disposal groups. In addition, NatWest Group acquired £26 million of equity shares in Vodeno Limited.

NatWest Group disposed of equity shares in Visa Inc. of £99 million and UBS Equity Funds of £69 million. There were no significant disposals in the prior year. There are no significant dividends on equity shares held at FVOCI in either year.

17 Intangible assets

Intangible assets, such as internally generated software and goodwill generated on business combinations are not physical in nature. This note presents the cost of the assets, which is the amount NatWest Group initially paid or incurred, additions and disposals during the year, and any amortisation or impairment. Amortisation is a charge that reflects the usage of the asset and impairment is a reduction in value arising from specific events identified during the year.

For accounting policy information see Accounting policies notes 3.4 and 3.5.

	2022			2021		
	Goodwill	Other (1)	Total	Goodwill	Other (1)	Total
Cost	£m	£m	£m	£m	£m	£m
At 1 January	**9,939**	**3,050**	**12,989**	9,939	2,592	12,531
Currency translation and other adjustments	**(8)**	**(3)**	**(11)**	—	29	29
Additions	**—**	**743**	**743**	—	479	479
Disposals and write-off of fully amortised assets	**—**	**(27)**	**(27)**	—	(50)	(50)
At 31 December	**9,931**	**3,763**	**13,694**	9,939	3,050	12,989
Accumulated amortisation and impairment						
At 1 January	**4,417**	**1,849**	**6,266**	4,332	1,544	5,876
Currency translation and other adjustments	**(8)**	**(4)**	**(12)**	—	31	31
Disposals and write-off of fully amortised assets	**—**	**(17)**	**(17)**	—	(28)	(28)
Impairment of intangible assets	**—**	**—**	**—**	85	2	87
Amortisation charge for the year	**—**	**341**	**341**	—	300	300
At 31 December	**4,409**	**2,169**	**6,578**	4,417	1,849	6,266
Net book value at 31 December	**5,522**	**1,594**	**7,116**	5,522	1,201	6,723

(1) Principally internally generated software.

Intangible assets and goodwill are reviewed for indicators of impairment. No impairment was indicated at 31 December 2022. In 2021 goodwill in the Retail Banking segment was impaired by £85 million.

NatWest Group's goodwill acquired in business combinations is reviewed for impairment annually at 31 December by cash-generating unit (CGU) (2022 and 2021: Retail Banking £2,607 million; Commercial Banking £2,606 million; Private Banking £9 million; and RBS International £300 million). Analysis by reportable segment is in Note 4 Segmental analysis.

Impairment testing involves the comparison of the carrying value of each CGU with its recoverable amount. The carrying values of the segments reflect the equity allocations made by management, which are consistent with NatWest Group's capital targets.

Recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants. Value in use is the present value of expected future cash flows from the CGU.

The recoverable amounts for all CGUs at 31 December 2022 were based on value in use, using management's latest five-year revenue and cost forecasts. These are discounted cash flow projections over five years. The forecast is then extrapolated in perpetuity using a long-term growth rate to compute a terminal value, which comprises the majority of the value in use. The long-term growth rates have been based on expected growth of the CGUs (2022: 1.4% and 2021: 1.6%). The pre-tax risk discount rates are based on those observed to be applied to businesses regarded as peers of the CGUs (2022: 15.3% for Retail Banking, Commercial Banking and Private Banking, 14% for RBS International, and 2021: 13.9% for Retail Banking, Commercial Banking and Private Banking, 12.1% for RBS International).

18 Other assets

Other assets are not financial assets and reflect a grouping of assets that are not large enough to present separately on the balance sheet.

	2022 £m	2021 £m
Interests in associates (1)	**688**	716
Property, plant and equipment (2)	**4,240**	4,230
Pension schemes in net surplus (Note 5)	**318**	602
Prepayments	**340**	360
Accrued income	**327**	248
Tax recoverable	**279**	190
Deferred tax (Note 7)	**2,178**	1,195
Acceptances	**237**	225
Other	**569**	476
Other assets	**9,176**	8,242

(1) Includes interest in Business Growth Fund £677 million (2021 - £700 million).
(2) The estimated useful lives of NatWest Group's property, plant and equipment are: freehold buildings and long leasehold 50 years, short leaseholds for unexpired period of lease, property adaptation costs 10 to 15 years, computer equipment up to 5 years and other equipment 4 to 15 years.

19 Other financial liabilities

Other financial liabilities consist of customer deposits designated at fair value and debt securities in issue.

For accounting policy information see Accounting policies notes 3.8 and 3.11.

	2022 £m	2021 £m
Customer deposits - designated as at fair value through profit or loss	**1,050**	568
Debt securities in issue		
- MRELs	**22,265**	23,422
- Other medium term notes	**16,419**	12,430
- Commercial paper and certificates of deposit	**5,672**	9,153
- Covered bonds	**2,842**	2,886
- Securitisation	**859**	867
Total	**49,107**	49,326

20 Subordinated liabilities

Subordinated liabilities are debt securities that, in the event of winding up or bankruptcy, rank below other liabilities for interest payments and repayment.

For accounting policy information see Accounting policies notes 3.8 and 3.11.

	2022 £m	2021 £m
Dated loan capital	5,968	8,051
Undated loan capital	173	259
Preference shares	119	119
	6,260	8,429

Certain preference shares issued by the company are classified as liabilities; these securities remain subject to the capital maintenance rules of the Companies Act 2006.

Dated loan capital		First call date	Maturity date	Capital treatment	2022 £m	2021 £m
Natwest Group plc						
$2,250 million	6.13% notes	—	Dec-22	Tier 2	—	986
$2,250 million	5.13% notes	—	May-24	Tier 2	706	956
$2,000 million	6.00% notes	—	Dec-23	Tier 2	536	1,073
£1,000 million	3.622% notes	Aug-25	Aug-30	Tier 2	964	995
£1,000 million	2.105% notes	Aug-26	Nov-31	Tier 2	1,001	999
$1,000 million	6.10% notes	—	Jun-23	Tier 2	126	354
$850 million	3.032% notes	Nov-30	Nov-35	Tier 2	555	584
€750 million	1.043% notes	Jun-27	Sep-32	Tier 2	665	630
$750 million	3.754% notes	Nov-24	Nov-29	Tier 2	626	558
£650 million	7.416% notes	Mar-28	Jun-33	Tier 2	641	—
$650 million	6.425% notes	Jan-34	Jan-43	Not applicable	—	554
					5,820	7,689
Other subsidiaries						
$650 million	6.3% notes	Jan-34	Dec-43	Not applicable	—	39
€300 million	Floating rate notes	—	Jun-22	Tier 2	—	252
€170 million	Floating rate notes	—	Feb-41	Not applicable	223	331
$150 million	7.125% notes	—	Oct-93	Not applicable	18	113
€145.6 million	Floating rate notes	—	Apr-23	Tier 2	122	119
$136 million	7.75% notes	—	May-23	Not applicable	83	104
					6,266	8,647
Undated loan capital						
Natwest Group plc						
$762 million	7.648% notes	Sep-31	—	Not applicable	—	51
Other subsidiaries						
£16 million	5.63% notes	Sep-26	—	Not applicable	18	20
£19 million	5.63% notes	Jun-32	—	Tier 2	—	1
£21 million	6.2% notes	Mar-22	—	Tier 2	—	22
£31 million	7.38% notes	—	—	Not applicable	2	1
£53 million	7.125% notes	Oct-22	—	Not applicable	—	56
€31 million	11.375% notes	—	—	Tier 2	48	45
£35 million	11.5% notes	Dec-22	—	Not applicable	72	31
£11 million	11.75% notes	—	—	Tier 2	25	24
£1.1 million	SONIA + 2.8266% notes	—	—	Tier 2	2	2
£4.9 million	2.5% fixed notes	—	—	Not applicable	6	6
					173	259
Preference shares						
Other subsidiaries						
£140 million	Non-cumulative preference shares of £1	—	—	Not applicable	119	119
					119	119
Fair Value Hedging					(298)	(596)
					6,260	8,429

(1) Notes redeemed before call date as tax and regulatory benefits discontinued.

21 Other liabilities

Other liabilities are amounts due to third parties that are not financial liabilities including lease liabilities, amounts due for goods and services that have been received but not invoiced, tax due to HMRC, and retirement benefit liabilities. Liabilities which have a level of uncertainty regarding their timing or the future cost to settle them are included in other liabilities as provisions for liabilities and charges.

Other liabilities	2022 £m	2021 £m
Lease liabilities	1,118	1,263
Provisions for liabilities and charges	1,138	1,268
Retirement benefit liabilities (Note 5)	98	114
Accruals	1,407	1,508
Deferred income	355	319
Current tax	55	12
Deferred tax (Note 7)	227	359
Acceptances	237	225
Other liabilities (1)	711	729
	5,346	5,797

(1) Other liabilities include liabilities of disposal groups of £15 million (2021 - £5 million). See Note 8 for further information.

Provisions for liabilities and charges	Customer redress (1) £m	Litigation and other regulatory £m	Property £m	Financial commitments and guarantees £m	Other (2) £m	Total £m
At 1 January 2022	474	277	231	93	193	1,268
Expected credit loss impairment release	—	—	—	(6)	—	(6)
Currency translation and other movements	2	20	—	—	7	29
Charge to income statement	178	36	31	—	193	438
Release to income statement	(45)	(14)	(71)	—	(60)	(190)
Provisions utilised	(178)	(79)	(37)	—	(107)	(401)
At 31 December 2022	431	240	154	87	226	1,138

(1) Includes payment protection insurance provision which reflects the estimated cost of PPI redress attributable to claims prior to the Financial Conduct Authority (FCA) complaint deadline of 29 August 2019. All pre-deadline complaints have been processed which removes complaint volume estimation uncertainty from the provision estimate. NatWest Group continues to conclude remaining bank-identified closure work and conclude cases with the Financial Ombudsmen Service.
(2) Other materially comprises provisions relating to restructuring costs.

Provisions are liabilities of uncertain timing or amount and are recognised when there is a present obligation as a result of a past event, the outflow of economic benefit is probable and the outflow can be estimated reliably. Any difference between the final outcome and the amounts provided will affect the reported results in the period when the matter is resolved.

For accounting policy information see Accounting policies note 2.4.

Critical accounting policy: Provisions for liabilities

The key judgment is involved in determining whether a present obligation exists. There is often a high degree of uncertainty and judgment is based on the specific facts and circumstances relating to individual events in determining whether there is a present obligation. Judgment is also involved in estimation of the probability, timing and amount of any outflows. Where NatWest Group can look to another party such as an insurer to pay some or all of the expenditure required to settle a provision, any reimbursement is recognised when, and only when, it is virtually certain that it will be received.

Estimates - Provisions are liabilities of uncertain timing or amount and are recognised when there is a present obligation as a result of a past event, the outflow of economic benefit is probable and the outflow can be estimated reliably.

Any difference between the final outcome and the amounts provided will affect the reported results in the period when the matter is resolved.

- Customer redress: Provisions reflect the estimated cost of redress attributable to claims where it is determined that a present obligation exists.
- Litigation and other regulatory: NatWest Group is engaged in various legal proceedings, both in the UK and in overseas jurisdictions, including the US. For further information in relation to legal proceedings and discussion of the associated uncertainties, refer to Note 26.
- Property: This includes provision for contractual costs associated with vacant properties.
- Other provisions: These materially comprise provisions for onerous contracts and restructuring costs. Onerous contract provisions comprise an estimate of the costs involved in fulfilling the terms and conditions of contracts net of any expected benefits to be received. This includes provision for contractual costs associated with vacant properties. Redundancy and restructuring provisions comprise the estimated cost of restructuring, including redundancy costs where an obligation exists.

Background information for all material provisions is given in Note 26.

22 Share capital and other equity

Share capital consists of ordinary shares and preference shares and is measured as the number of shares allotted and fully paid multiplied by the nominal value of a share. Other equity includes paid-in equity, merger reserves, capital redemption reserve and own shares held.

For accounting policy information see Accounting policies note 3.11.

			Number of shares	
	2022	2021	2022	2021
Allotted, called up and fully paid	£m	£m	000s	000s
Ordinary shares of £1.0769 (1)	**10,539**	11,468	**9,786,024**	11,467,982
Cumulative preference shares of £1	**0.5**	0.5	**483**	483
Non-cumulative preference shares of US$0.01 (2)	**—**	—	**—**	10

(1) The nominal value of ordinary shares without rounding is £1.07692307692307 7 per share
(2) The company redeemed the Series U Non-cumulative dollar preference shares on 31 March 2022.

Movement in allotted, called up and fully paid ordinary shares	£m	Number of shares 000s
At 1 January 2021	12,129	12,129,165
Shares issued	38	37,584
Share cancellation	(699)	(698,767)
At 1 January 2022	**11,468**	**11,467,982**
Share cancellation	**(929)**	**(929,188)**
Share consolidation	**—**	**(752,770)**
At 31 December 2022	**10,539**	**9,786,024**

Ordinary shares

At a General Meeting of the company on 25 August 2022, shareholders approved a share consolidation of the company's ordinary shares. Every 14 existing ordinary shares of £1 each in the capital of the company in issue as at 26 August 2022 were consolidated into one intermediate ordinary share of £14.00 and immediately divided into 13 new ordinary shares of £1.0769 in the capital of the company.

There is no authorised share capital under the company's constitution. At 31 December 2022, the directors had authority granted at the 2022 Annual General Meeting to issue up to £561,452,512 nominal of ordinary shares other than by pre-emption to existing shareholders. This figure was amended to £520,306,980 at the General Meeting on 25 August 2022 to preserve the position as if the share consolidation had not taken place.

On 6 February 2019 the company held a General Meeting and shareholders approved a special resolution to give the company authority to make off-market purchases of up to 4.99% of its issued ordinary share capital in any 12-month period from HM Treasury (or its nominee) at such times as the directors may determine is appropriate. Full details of the proposal are set out in the Circular and Notice of General Meeting available at natwestgroup.com. This authority was renewed at the Annual General Meeting in 2022, and amended at the General Meeting held on 25 August 2022 to preserve the position as if the share consolidation had not taken place. Shareholders will be asked to renew the authority at the Annual General Meeting in 2023.

The company utilised the authority it obtained at the 2021 AGM to make an off-market purchase of 549,851,147 ordinary shares (nominal value £549,851,147) in the company from HMT on 28 March 2022, at a price of 220.5p per ordinary share for the total consideration of £1,212,421,779, representing 4.91% of the company's issued ordinary share capital. The company cancelled all of the purchased ordinary shares.

At the Annual General Meeting in 2022 shareholders authorised the company to make market purchases of up to 1,122,905,024 ordinary shares in the company. The authority was amended at the General Meeting held on 25 August 2022 to preserve the position as if the share consolidation had not taken place and shareholders will be asked to renew the authority at the Annual General Meeting in 2023.

The directors utilised the authority obtained at the 2021 AGM to conduct a share buyback programme (the Programme) of up to £750 million, as announced to the market on 30 July 2021. The Programme's purpose is to reduce the ordinary share capital of NatWest Group. Taking into account the reduction in issued ordinary share capital which occurred as a result of the off-market buyback announced on 19 March 2021, the maximum number of ordinary shares that could be purchased by the company under the Programme was 1,157,583,542.

Phase 1 of the Programme commenced on 2 August 2021 and completed on 18 January 2022. 340,537,460 ordinary shares (nominal value £340,537,460) were purchased by the company at an average purchase price of 220.0199p per ordinary share for the total consideration of £749,250,031. Phase 2 of the Programme commenced on 21 February 2022 and completed on 15 July 2022. A further 346,835,822 ordinary shares (nominal value £346,835,822) were purchased by the company at an average purchase price of 216.2406p per ordinary share for the total consideration of £749,999,999. All of the purchased ordinary shares were cancelled, representing 11.23% of the company's issued ordinary share capital.

In 2022 NatWest Group paid an interim dividend of £364 million, or 3.5p per ordinary share (2021 – £347 million, or 3p per ordinary share).

In addition, the company also paid a special dividend of £1,750 million, or 16.8p per ordinary share.

The company has announced that the directors have recommended a final dividend of £1.0 billion, or 10.0p per ordinary share (2021 - £844 million, or 7.5p per ordinary share) subject to shareholder approval at the Annual General Meeting on 25 April 2023.

If approved, payment will be made on 2 May 2023 to shareholders on the register at the close of business on 17 March 2023. The ex-dividend date will be 16 March 2023.

22 Share capital and other equity continued

Cumulative preference shares

At the 2021 Annual General Meeting, shareholders authorised the company to make an off-market purchase of preference shares in the company. In December 2021 the company used this authority to purchase 157,546 5.5% cumulative preference shares and 259,314 11% cumulative preference shares. The company cancelled all of the purchased preference shares.

Non-cumulative preference shares

The company announced on 2 February 2022 that it had given notice to holders of the redemption of the Series U Non-Cumulative Dollar Preference Shares. On 31 March 2022, the Series U Dollar Non-cumulative Preference Shares, of amount outstanding US$1,013,000,000 were redeemed at the redemption price of US$100,000 per Series U Dollar Preference Share plus accrued dividends equalling $635.94 per share.

	2022 £m	2021 £m	2020 £m
Additional Tier 1 notes			
US$1.15 billion 8% notes callable August 2025 (1)	**735**	735	735
US$2.65 billion 8.625% notes callable August 2021 (2)	**—**	—	2,046
US$1.5 billion 6.000% notes callable December 2025 - June 2026 (3)	**1,220**	1,220	1,220
GBP£1.0 billion 5.125% notes callable May - November 2027 (4)	**998**	998	998
GBP£0.4 billion – March 2021 issuance (5)	**399**	399	—
US$0.75 billion – June 2021 issuance (6)	**538**	538	—
	3,890	3,890	4,999

(1) Issued in August 2015. In the event of conversion, converted into ordinary shares at a price of $3.295 nominal per £1 share.
(2) Issued in August 2016. In the event of conversion, converted into ordinary shares at a price of $2.284 nominal per £1 share. In July 2021, paid-in equity reclassified to liabilities as the result of a call in August 2021 of US$2.65 billion AT1 Capital notes.
(3) Issued in June 2020. In the event of conversion, converted into ordinary shares at a price of $2.179 (translated at applicable exchange rate) per £1 share.
(4) Issued in November 2020. In the event of conversion, converted into ordinary shares at a price of £1.754 nominal per £1 share.
(5) Issued in March 2021. In the event of conversion, converted into ordinary shares at a price of £1.754 nominal per £1 share.
(6) Issued in June 2021. In the event of conversion, converted into ordinary shares at a price of $2.448 (translated at applicable exchange rate) per £1 share.

22 Share capital and other equity continued

Paid-in equity - comprises equity instruments issued by the company other than those legally constituted as shares.

Additional Tier 1 instruments issued by NatWest Group plc having the legal form of debt are classified as equity under IFRS. The coupons on these instruments are non-cumulative and payable at the company's discretion. In the event NatWest Group's CET1 ratio falls below 7% any outstanding instruments will be converted into ordinary shares at a fixed price.

Capital recognised for regulatory purposes cannot be redeemed without Prudential Regulation Authority consent. This includes ordinary shares, preference shares and additional Tier 1 instruments.

Merger reserve - the merger reserve comprises the premium on shares issued to acquire NatWest Bank Plc less goodwill amortisation charged under previous GAAP.

Capital redemption reserve - under UK companies legislation, when shares are redeemed or purchased wholly or partly out of the company's profits, the amount by which the company's issued share capital is diminished must be transferred to the capital redemption reserve. The capital maintenance provisions of UK companies legislation apply to the capital redemption reserve as if it were part of the company's paid up share capital. On 15 June 2017, the Court of Session approved a reduction of NatWest plc capital so that the amounts which stood to the credit of the capital redemption reserve were transferred to retained earnings. The nominal value of the shares bought back from HM Treasury in March 2021 and via the Programme during 2022 have been transferred to the Capital redemption reserve.

Own shares held - at 31 December 2022, 13 million ordinary shares of £1.0769 each of the company (2021 –15 million) were held by employee share trusts in respect of share awards and options granted to employees. During the year, the employee share trusts purchased no ordinary shares and delivered 2 million ordinary shares in satisfaction of the exercise of options and the vesting of share awards under the employee share plans. The company retains the flexibility to use newly issued shares, shares purchased by the NatWest Group Employee Share Ownership Trust and any available treasury shares to satisfy obligations under its employee share plans. The company does not use performance conditions or targets based on earnings per share (EPS), total shareholder return (TSR), and net asset value (NAV) in connection with its employee share plans.

As part of the shares bought back from HM Treasury in March 2021, the company transferred 200 million ordinary shares to treasury. The company has used a total of 76,513,524 treasury shares to satisfy the exercise of options and the vesting of share awards under the employee share plans. The balance of ordinary shares held in treasury as at 31 December 2022 was 114,011,084. The figure has been adjusted to reflect the 13 for 14 share consolidation on 30 August 2022.

NatWest Group plc optimises capital efficiency by maintaining reserves in subsidiaries, including regulated entities. Certain preference shares and subordinated debt are also included within regulatory capital. The remittance of reserves to the company or the redemption of shares or subordinated capital by regulated entities may be subject to maintaining the capital resources required by the relevant regulator.

UK law prescribes that only the reserves of the company are taken into account for the purpose of making distributions and in determining permissible applications of the share premium account.

23 Structured entities

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

Securitisations

In a securitisation, assets, or interests in a pool of assets, are transferred, or the credit risk is transferred via a derivative or financial guarantee to a SE which then issues liabilities to third party investors.

NatWest Group's involvement in client securitisations takes a number of forms. It may provide secured finance to, or purchase asset-backed notes from, client sponsored SEs secured on assets transferred by the client entity; purchase asset backed securities issued by client sponsored SEs in the primary or secondary markets; or provide liquidity facilities to client sponsored SEs. In addition, NatWest Group arranges or acts as lead manager or placement agent in client primary markets securitisations. NatWest Group provides portfolio structured derivative hedging solutions to clients. NatWest Group undertakes own-asset securitisations to transfer the credit risk on portfolios of financial assets.

Other credit risk transfer securitisations

NatWest Group transfers credit risk on originated loans and mortgages without the transfer of assets to a SE. As part of this, NatWest Group enters into credit derivative and financial guarantee contracts with consolidated SEs. At 31 December 2022, debt securities in issue by such SEs (and held by third parties) were £859 million (2021 - £867 million). The associated loans and mortgages at 31 December 2022 were £4,361 million (2021 - £7,137 million). At 31 December, ECL in relation to non-defaulted assets was reduced by £20 million (2021 - £28 million) as a result of financial guarantee contracts with consolidated SEs.

Covered debt programme

Group companies have assigned loans to customers and debt investments to bankruptcy remote limited liability partnerships to provide security for issues of debt securities. NatWest Group retains all of the risks and rewards of these assets and continues to recognise them. The partnerships are consolidated by NatWest Group and the related covered bonds included within other financial liabilities. At 31 December 2022, £8,156 million (2021 - £8,965 million) of loans to customers provided security for debt securities in issue and other borrowing of £4,132 million (2021 - £3,512 million).

Lending of own issued securities

NatWest Group has issued, retained, and lent debt securities under securities lending arrangements. 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. NatWest Group retains all of the risks and rewards of own issued liabilities lent under such arrangements and does not recognise them. At 31 December 2022, £2,419 million (2021 - £1,494 million) of secured own issued liabilities have been retained and lent under securities lending arrangements. At 31 December 2022, £2,244 million (2021 - £1,564 million) of loans and other debt instruments provided security for secured own issued liabilities that have been retained and lent under securities lending arrangements.

Unconsolidated structured entities

NatWest Group's interest in unconsolidated structured entities is analysed below.

	2022			2021		
	Asset backed securitisation vehicles £m	Investment funds and others £m	Total £m	Asset backed securitisation vehicles £m	Investment funds and others £m	Total £m
Trading assets and derivatives						
Trading assets	**616**	**137**	**753**	490	117	607
Derivative assets	**343**	**—**	**343**	251	18	269
Derivative liabilities	**(388)**	**(22)**	**(410)**	(170)	(1)	(171)
Total	**571**	**115**	**686**	571	134	705
Non trading assets						
Loans to customers	**2,431**	**648**	**3,079**	1,692	361	2,053
Other financial assets	**6,334**	**849**	**7,183**	3,645	379	4,024
Total	**8,765**	**1,497**	**10,262**	5,337	740	6,077
Liquidity facilities/loan commitments	**1,723**	**320**	**2,043**	1,403	135	1,538
Guarantees	**—**	**107**	**107**	—	—	—
Maximum exposure	**11,059**	**2,039**	**13,098**	7,311	1,009	8,320

24 Asset transfers

This note provides an overview of asset transfers which do not qualify for derecognition and therefore continue to be recognised in NatWest Group's balance sheet.

For accounting policy information see Accounting policies note 3.9.

Transfers that do not qualify for derecognition

NatWest Group enters into securities repurchase, lending and total return transactions 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 settlement of the transaction.

Securities sold under repurchase transactions and transactions with the substance of securities repurchase agreements are not derecognised if NatWest Group retains substantially all the risks and rewards of ownership. The fair value (and carrying value) of securities transferred under such transactions included on the balance sheet, are set out below. All of these securities could be sold or repledged by the holder.

The following assets have failed derecognition (1)	2022 £m	2021 £m
Trading assets	**6,668**	13,084
Loans to bank - amortised cost	**16**	38
Loans to customers - amortised cost	**398**	1,837
Other financial assets	**2,901**	11,746
Total	**9,983**	26,705

(1) Associated liabilities were £9,501 million (2021 - £24,747 million).

Assets pledged as collateral

NatWest Group pledges collateral with its counterparties in respect of derivative liabilities and bank and stock borrowings.

Assets pledged against liabilities	2022 £m	2021 £m
Trading assets	**15,062**	23,601
Loans to banks - amortised cost	**66**	62
Loans to customers - amortised cost	**17,493**	20,108
Other financial assets (1)	**3,351**	3,624
Total	**35,972**	47,395

(1) Includes assets pledged for pension derivatives and stock borrowings.

As part of the covered debt programme £8,156 million of loans to customers and other debt instruments (2021 – £8,965 million) have been transferred to bankruptcy remote limited liability partnerships within the NatWest Group to provide collateral for issues of debt securities and other borrowing by the NatWest Group of £4,132 million (2021 – £3,512 million). See Structured Entities Note.

25 Capital resources

NatWest Group's regulatory capital is assessed against minimum requirements that are set out under the Capital Requirements Regulation to determine the strength of its capital base.

This note shows a reconciliation of shareholders' equity to regulatory capital.

	2022 £m	2021 £m
Shareholders' equity (excluding non-controlling interests)		
Shareholders' equity	**36,488**	41,796
Preference shares - equity	**—**	(494)
Other equity instruments	**(3,890)**	(3,890)
	32,598	37,412
Regulatory adjustments and deductions		
Own credit	**(58)**	21
Defined benefit pension fund adjustment	**(227)**	(465)
Cash flow hedging reserve	**2,771**	395
Deferred tax assets	**(912)**	(761)
Prudential valuation adjustments	**(275)**	(274)
Goodwill and other intangible assets	**(7,116)**	(6,312)
Foreseeable ordinary dividends and pension contributions	**(967)**	(1,211)
Adjustment for trust assets (1)	**(365)**	—
Foreseeable charges - on-market share buyback programme	**(800)**	(825)
Adjustment under IFRS 9 transitional arrangements	**361**	621
Insufficient coverage for non-performing exposures	**(18)**	(5)
	(7,606)	(8,816)
CET1 capital	**24,992**	28,596
Additional Tier 1 (AT1) capital		
Qualifying instruments and related share premium	**3,875**	3,875
Qualifying instruments and related share premium subject to phase out	**—**	571
AT1 capital	**3,875**	4,446
Tier 1 capital	**28,867**	33,042
Qualifying Tier 2 capital		
Qualifying instruments and related share premium	**4,953**	4,935
Qualifying instruments issued by subsidiaries and held by third parties	**82**	314
Other regulatory adjustments	**18**	457
Tier 2 capital	**5,053**	5,706
Total regulatory capital	**33,920**	38,748

(1) Prudent deduction in respect of agreement with the pension fund to establish new legal structure. See Notes 5 and 33.

It is NatWest Group policy to maintain a strong capital base, to expand it as appropriate and to utilise it efficiently throughout its activities to optimise the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, NatWest Group has regard to the supervisory requirements of the PRA. The PRA uses capital ratios as a measure of capital adequacy in the UK banking sector, comparing a bank's capital resources with its risk-weighted assets (the assets and off-balance sheet exposures are weighted to reflect the inherent credit and other risks); by international agreement, the Pillar 1 capital ratios should be not less than 8% with a Common Equity Tier 1 component of not less than 4.5%. NatWest Group has complied with the PRA's capital requirements throughout the year.

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

26 Memorandum items

Contingent liabilities and commitments

NatWest Group provides its customers with a variety of services to support their businesses, such as guarantees. These are reported as commitments. Contingent liabilities are possible obligations dependent on a future event or present obligations which are either not probable or cannot be measured reliably.

For accounting policy information see Accounting policies note 2.4.

The amounts shown in the table below are intended only to provide an indication of the volume of business outstanding at 31 December 2022. Although NatWest Group is exposed to credit risk in the event of a customer's failure to meet its obligations, the amounts shown do not, and are not intended to, provide any indication of NatWest Group's expectation of future losses.

	2022 £m	2021 £m
Guarantees	3,150	2,055
Other contingent liabilities	1,855	2,004
Standby facilities, credit lines and other commitments	121,576	121,308
Contingent liabilities and commitments	126,581	125,367

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. NatWest Group's maximum exposure to credit loss, in the event of its obligation crystallising and all counterclaims, collateral or security proving valueless, is represented by the contractual nominal amount of these instruments included in the table above. These commitments and contingent obligations are subject to NatWest Group's normal credit approval processes.

Guarantees – NatWest Group gives guarantees on behalf of customers. A financial guarantee represents an irrevocable undertaking that NatWest Group will meet a customer's specified obligations to third party if the customer fails to do so. The maximum amount that NatWest Group could be required to pay under a guarantee is its principal amount as disclosed in the table above. NatWest 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, NatWest 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 NatWest 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.

Contractual obligations for future expenditure not provided for in the accounts

The following table shows contractual obligations for future expenditure not provided for in the accounts at the year end.

	2022 £m	2021 £m
Capital expenditure on property, plant and equipment	8	16
Contracts to purchase goods or services (1)	677	682
	685	698

(1) Of which due within 1 year: £321 million (2021 - £301 million).

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Trustee and other fiduciary activities

In its capacity as trustee or other fiduciary role, NatWest Group may hold or place assets on behalf of individuals, trusts, companies, pension schemes and others. The assets and their income are not included in NatWest Group's financial statements. NatWest Group earned fee income of £266 million (2021 - £280 million; 2020 - £245 million) from these activities.

The Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS), the UK's statutory fund of last resort for customers of authorised financial services firms, pays compensation if a firm is unable to meet its obligations. The FSCS funds compensation for customers by raising management expenses levies and compensation levies on the industry. In relation to protected deposits, each deposit-taking institution contributes towards these levies in proportion to their share of total protected deposits on 31 December of the year preceding the scheme year (which runs from 1 April to 31 March), subject to annual maxima set by the Prudential Regulation Authority. In addition, the FSCS has the power to raise levies on a firm that has ceased to participate in the scheme and is in the process of ceasing to be authorised for the costs that it would have been liable to pay had the FSCS made a levy in the financial year it ceased to be a participant in the scheme.

Litigation and regulatory matters

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

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

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

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

It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

The future outflow of resources in respect of any Matter may ultimately prove to be substantially greater than or less than the aggregate provision that NatWest Group has recognised. Where (and as far as) liability cannot be reasonably estimated, no provision has been recognised. NatWest Group expects that in future periods, additional provisions, settlement amounts and customer redress payments will be necessary, in amounts that are expected to be substantial in some instances. Please refer to Note 21 for information on material provisions.

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

For a discussion of certain risks associated with NatWest Group's litigation and regulatory matters, see the Risk Factors relating to legal, regulatory and governmental actions and investigations set out on pages 146 to 148.

Litigation

Residential mortgage-backed securities (RMBS) litigation in the US

NatWest Group companies continue to defend RMBS-related claims in the US in which the plaintiff, the Federal Deposit Insurance Corporation (FDIC), alleges that certain disclosures made in connection with the relevant offerings of RMBS contained materially false or misleading statements and/or omissions regarding the underwriting standards pursuant to which the mortgage loans underlying the RMBS were issued.

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London Interbank Offered Rate (LIBOR) and other rates litigation

NWM Plc and certain other members of NatWest Group, including NatWest Group plc, are defendants in a number of class actions and individual claims pending in the United States District Court for the Southern District of New York (SDNY) with respect to the setting of LIBOR and certain other benchmark interest rates. The complaints allege that certain members of NatWest Group and other panel banks violated various federal laws, including the US commodities and antitrust laws, and state statutory and common law, as well as contracts, by manipulating LIBOR and prices of LIBOR-based derivatives in various markets through various means.

Several purported class actions relating to USD LIBOR, as well as more than two dozen non-class actions concerning USD LIBOR, are part of a co-ordinated proceeding in the SDNY. The class actions include claims on behalf of persons who purchased LIBOR-linked instruments from defendants, bonds issued by defendants, persons who transacted futures and options on exchanges, and lenders who made LIBOR-based loans. The coordinated proceeding is currently in the discovery phase. In March 2020, NatWest Group companies finalised a settlement resolving the class action on behalf of bondholder plaintiffs (those who held bonds issued by non-defendants on which interest was paid from 2007 to 2010 at a rate expressly tied to USD LIBOR). The amount of the settlement (which was covered by an existing provision) was paid into escrow pending court approval of the settlement.

Litigation and regulatory matters

The non-class claims filed in the SDNY include claims that the FDIC is asserting on behalf of certain failed US banks. In July 2017, the FDIC, on behalf of 39 of those failed US banks, commenced substantially similar claims against NatWest Group companies and others in the High Court of Justice of England and Wales. The action alleges collusion with regard to the setting of USD LIBOR and that the defendants breached UK and European competition law, as well as asserting common law claims of fraud under US law. The defendant banks consented to a request by the FDIC for discontinuance of the claim in respect of 20 failed US banks, leaving 19 failed US banks as claimants. The trial is currently anticipated to take place in Q4 2025.

In addition to the USD LIBOR cases described above, there are two class actions relating to JPY LIBOR and Euroyen TIBOR that remain outstanding. The first class action, which relates to Euroyen TIBOR futures contracts, was dismissed by the SDNY in September 2020 on jurisdictional and other grounds, and that decision was affirmed by the US Court of Appeals in October 2022. The plaintiffs have petitioned the court for a rehearing of their appeal. The second class action, which relates to other derivatives allegedly tied to JPY LIBOR and Euroyen TIBOR, was dismissed by the SDNY in relation to NWM Plc and other NatWest Group companies in September 2021. That dismissal may be the subject of a future appeal.

Two other IBOR-related class actions, concerning alleged manipulation of Euribor and Pound Sterling LIBOR, were previously dismissed by the SDNY for various reasons. The plaintiffs' appeals in those two cases remain pending.

In June 2021, NWM Plc and the plaintiffs in the Swiss Franc LIBOR class action finalised a settlement resolving that case. The amount of that settlement has been paid into escrow pending final court approval of the settlement.

Settlements in the class action relating to the Singapore Interbank Offered Rate and Singapore Swap Offer Rate and the class action relating to the Australian Bank Bill Swap Reference Rate received court approval in 2022, such that the settlements became final and the amounts previously paid into escrow were released to the plaintiffs.

In August 2020, a complaint was filed in the United States District Court for the Northern District of California by several United States retail borrowers against the USD ICE LIBOR panel banks and their affiliates (including NatWest Group plc, NWM Plc, NWMSI and NWB Plc), alleging (i) that the very process of setting USD ICE LIBOR amounts to illegal price-fixing; and (ii) that banks in the United States have illegally agreed to use LIBOR as a component of price in variable retail loans. In September 2022, the district court dismissed the complaint, subject to re-pleading by the plaintiffs. The plaintiffs filed an amended complaint in October 2022, which the defendants are again seeking to have dismissed.

NWM Plc is also named as a defendant in a motion to certify a class action relating to LIBOR in the Tel Aviv District Court in Israel. NWM Plc filed a motion for cancellation of service outside the jurisdiction, which was granted in July 2020. The claimants appealed that decision and in November 2020 the appeal was refused and the claim dismissed by the Appellate Court. The claim could in future be recommenced depending on the outcome of an appeal to Israel's Supreme Court in respect of the dismissal of the substantive case against banks that had a presence in Israel.

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FX litigation

NWM Plc, NWMSI and/or NatWest Group plc are defendants in several cases relating to NWM Plc's foreign exchange (FX) business. In 2015, NWM Plc paid US$255 million to settle the consolidated antitrust class action filed in the SDNY on behalf of persons who entered into over-the-counter FX transactions with defendants or who traded FX instruments on exchanges. In 2018, some members of the settlement class who opted out of that class action settlement filed their own non-class complaint in the SDNY asserting antitrust claims against NWM Plc, NWMSI and other banks.

In April 2019, some of the claimants in the opt-out case described above, as well as others, served proceedings in the High Court of Justice of England and Wales, asserting competition claims against NWM Plc and several other banks. The claim was transferred from the High Court of Justice of England and Wales in December 2021 and registered in the UK Competition Appeal Tribunal (CAT) in January 2022. In December 2022, NWM Plc reached an agreement in principle, subject to documentation, to resolve both the SDNY and CAT cases. The settlement amount to be paid by NWM Plc is covered by an existing provision.

An FX-related class action, on behalf of 'consumers and end-user businesses', is proceeding in the SDNY against NWM Plc and others. In March 2022, the SDNY denied the plaintiffs' motion for class certification. Plaintiffs sought an immediate appeal of the decision but the appellate court declined to review the decision. As a result, the case is proceeding on an individual, non-class basis, and the defendants are seeking summary judgment dismissing the individual claims.

In May 2019, a cartel class action was filed in the Federal Court of Australia against NWM Plc and four other banks on behalf of persons who bought or sold currency through FX spots or forwards between 1 January 2008 and 15 October 2013 with a total transaction value exceeding AUD $0.5 million. The claimant has alleged that the banks, including NWM Plc, contravened Australian competition law by sharing information, coordinating conduct, widening spreads and manipulating FX rates for certain currency pairs during this period. NatWest Group plc and NWMSI have been named in the action as 'other cartel participants', but are not respondents. The claim was served in June 2019 and NWM Plc filed its defence in March 2022.

In July and December 2019, two separate applications seeking opt-out collective proceedings orders were filed in the CAT against NatWest Group plc, NWM Plc and other banks. Both applications were brought on behalf of persons who, between 18 December 2007 and 31 January 2013, entered into a relevant FX spot or outright forward transaction in the EEA with a relevant financial institution or on an electronic communications network. In March 2022, the CAT declined to certify as collective proceedings either of the applications. In October 2022, the CAT granted permission for the applicants to appeal that decision to the Court of Appeal. Separately, the applicants have served judicial review proceedings, which are due to be heard together with the appeal to the Court of Appeal in April 2023.

Two motions to certify FX-related class actions were filed in the Tel Aviv District Court in Israel in September and October 2018, and were subsequently consolidated into one motion. The consolidated motion to certify, which names The Royal Bank of Scotland plc (now NWM Plc) and several other banks as defendants, was served on NWM Plc in May 2020. The applicants have sought the court's permission to amend their motions to certify the class actions.

Litigation and regulatory matters

NWM Plc has filed a motion challenging the permission granted by the court for the applicants to serve the consolidated motion outside the Israeli jurisdiction. That NWM Plc motion remains pending.

In December 2021, a claim was issued in the Netherlands against NatWest Group plc, NWM Plc and NWM N.V. by Stichting FX Claims, seeking a declaration from the court that anti-competitive FX market conduct described in decisions of the European Commission (EC) of 16 May 2019 is unlawful, along with unspecified damages. The claimant has amended its claim to also refer to a December 2021 decision by the EC, which also described anti-competitive FX market conduct. The defendants are contesting the jurisdiction of the Dutch court.

Certain other foreign exchange transaction related claims have been or may be threatened. NatWest Group cannot predict whether all or any of these claims will be pursued.

Government securities antitrust litigation

NWMSI and certain other US broker-dealers are defendants in a consolidated antitrust class action in the SDNY on behalf of persons who transacted in US Treasury securities or derivatives based on such instruments, including futures and options. The plaintiffs allege that the defendants rigged the US Treasury securities auction bidding process to deflate prices at which they bought such securities and colluded to increase the prices at which they sold such securities to the plaintiffs. In March 2022, the SDNY dismissed the complaint, without leave to re-plead. The plaintiffs are appealing the dismissal.

Class action antitrust claims commenced in March 2019 are pending in the SDNY against NWM Plc, NWMSI and other banks in respect of Euro-denominated bonds issued by European central banks (EGBs). The complaint alleges a conspiracy among dealers of EGBs to widen the bid-ask spreads they quoted to customers, thereby increasing the prices customers paid for the EGBs or decreasing the prices at which customers sold the bonds. The class consists of those who purchased or sold EGBs in the US between 2007 and 2012. In March 2022, the SDNY dismissed the claims against NWM Plc and NWMSI on the ground that the complaint's conspiracy allegations are insufficient. The plaintiffs have filed a motion for permission to file an amended complaint.

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Swaps antitrust litigation

NWM Plc and other members of NatWest Group, including NatWest Group plc, as well as a number of other interest rate swap dealers, are defendants in several cases pending in the SDNY alleging violations of the US antitrust laws in the market for interest rate swaps. There is a consolidated class action complaint on behalf of persons who entered into interest rate swaps with the defendants, as well as non-class action claims by three swap execution facilities (TeraExchange, Javelin, and trueEx). The plaintiffs allege that the swap execution facilities would have successfully established exchange-like trading of interest rate swaps if the defendants had not unlawfully conspired to prevent that from happening through boycotts and other means. Discovery in these cases is complete, and the plaintiffs' motion for class certification remains pending.

In June 2021, a class action antitrust complaint was filed against a number of credit default swap dealers in New Mexico federal court on behalf of persons who, from 2005 onwards, settled credit default swaps in the United States by reference to the ISDA credit default swap auction protocol. The complaint alleges that the defendants conspired to manipulate that benchmark through various means in violation of the antitrust laws and the Commodity Exchange Act.

The defendants include several NatWest Group companies, including NatWest Group plc. Defendants are seeking dismissal.

Odd lot corporate bond trading antitrust litigation

In October 2021, the SDNY granted the defendants' motion to dismiss the class action antitrust complaint alleging that from August 2006 onwards various securities dealers, including NWMSI, conspired artificially to widen spreads for odd lots of corporate bonds bought or sold in the United States secondary market and to boycott electronic trading platforms that would have allegedly promoted pricing competition in the market for such bonds. The plaintiffs have filed an appeal.

Spoofing litigation

In December 2021, three substantially similar class actions complaints were filed in federal court in the United States against NWM Plc and NWMSI alleging Commodity Exchange Act and common law unjust enrichment claims arising from manipulative trading known as spoofing. The complaints refer to NWM Plc's December 2021 spoofing-related guilty plea (described below under "US investigations relating to fixed-income securities") and purport to assert claims on behalf of those who transacted in US Treasury securities and futures and options on US Treasury securities between 2008 and 2018. In July 2022, defendants filed a motion to dismiss these claims, which have been consolidated into one matter in the United States District Court for the Northern District of Illinois.

Madoff

NWM N.V. was named as a defendant in two actions filed by the trustee for the bankrupt estates of Bernard L. Madoff and Bernard L. Madoff Investment Securities LLC, in bankruptcy court in New York, which together seek to clawback more than US$298 million that NWM N.V. allegedly received from certain Madoff feeder funds and certain swap counterparties. The claims were previously dismissed, but as a result of an August 2021 decision by the US Court of Appeals, they will now proceed in the bankruptcy court, where they have now 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.

EUA trading litigation

NWM Plc was a named defendant in civil proceedings before the High Court of Justice of England and Wales brought in 2015 by ten companies (all in liquidation) (the 'Liquidated Companies') and their respective liquidators (together, 'the Claimants'). The Liquidated Companies previously traded in European Union Allowances (EUAs) in 2009 and were alleged to be VAT defaulting traders within (or otherwise connected to) EUA supply chains of which NWM Plc was a party. In March 2020, the court held that NWM Plc and Mercuria Energy Europe Trading Limited ('Mercuria') were liable for dishonestly assisting and knowingly being a party to fraudulent trading during a seven business day period in 2009.

In October 2020, the High Court quantified total damages against NWM Plc and Mercuria at £45 million plus interest and costs, and permitted the defendants to appeal to the Court of Appeal. In May 2021 the Court of Appeal set aside the High Court's judgment and ordered that a retrial take place before a different High Court judge. The claimants have been denied permission by the Supreme Court to appeal that decision and the retrial will therefore proceed on a date to be scheduled. Mercuria has also been denied permission by the Supreme Court to appeal the High Court's finding that NWM Plc and Mercuria were both vicariously liable.

Litigation and regulatory matters

Offshoring VAT assessments

HMRC issued protective tax assessments in 2018 against NatWest Group plc totalling £143 million relating to unpaid VAT in respect of the UK branches of two NatWest Group companies registered in India. NatWest Group formally requested reconsideration by HMRC of their assessments, and this process was completed in November 2020. HMRC upheld their original decision and, as a result, NatWest Group plc lodged an appeal with the Tax Tribunal and an application for judicial review with the High Court of Justice of England and Wales, both in December 2020. In order to lodge the appeal with the Tax Tribunal, NatWest Group plc was required to pay

£143 million to HMRC, and payment was made in December 2020. The appeal and the application for judicial review have both been stayed pending resolution of a separate case involving another bank.

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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 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 was filed in the United States District Court for the Eastern District of New York in November 2014. In September 2019, the district court dismissed the case, finding that the claims were deficient for several reasons, including lack of sufficient allegations as to the alleged conspiracy and causation. On 5 January 2023, the US Court of Appeals affirmed the district court's dismissal of this case. Another action, filed in the SDNY in 2017, 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 the two that have now been dismissed are pending in the same courts.

1MDB litigation

A Malaysian court claim was served in Switzerland in November 2022 by 1MDB, a Sovereign Wealth Fund, in which Coutts & Co Ltd was named, along with six others, as a defendant in respect of losses allegedly incurred by 1MDB. It is claimed that Coutts & Co Ltd is liable as a constructive trustee for having dishonestly assisted the directors of 1MDB in the breach of their fiduciary duties by failing (amongst other alleged claims) to undertake due diligence in relation to a customer of Coutts & Co Ltd, through which funds totalling c.US$1 billion were received and paid out between 2009 and 2011. The claimant seeks the return of that amount plus interest. Coutts & Co Ltd filed an application in January 2023 challenging the validity of service and the Malaysian court's jurisdiction to hear the claim. Coutts & Co Ltd is a company registered in Switzerland and is in wind-down following the announced sale of its business assets in 2015.

Regulatory matters (including investigations and customer redress programmes)

NatWest Group's businesses and financial condition can be affected by the actions of various governmental and regulatory authorities in the UK, the US, the EU and elsewhere. NatWest Group has engaged, and will continue to engage, in discussions with relevant governmental and regulatory authorities, including in the UK, the US, the EU and elsewhere, on an ongoing and regular basis, and in response to informal and formal inquiries or investigations, regarding operational, systems and control evaluations and issues including those related to compliance with applicable laws and regulations, including consumer protection, investment advice, business conduct, competition/anti-trust, VAT recovery, anti-bribery, anti-money laundering and sanctions regimes. NatWest Group expects government and regulatory intervention in financial services to be high for the foreseeable future, including increased scrutiny from competition and other regulators in the retail and SME business sectors.

Any matters discussed or identified during such discussions and inquiries may result in, among other things, further inquiry or investigation, other action being taken by governmental and regulatory authorities, increased costs being incurred by NatWest Group, remediation of systems and controls, public or private censure, restriction of NatWest Group's business activities and/or fines. Any of the events or circumstances mentioned in this paragraph or below could have a material adverse effect on NatWest 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.

NatWest Group is co-operating fully with the matters described below.

US investigations relating to fixed-income securities

In December 2021, NWM Plc pled guilty in the United States District Court for the District of Connecticut to one count of wire fraud and one count of securities fraud in connection with historical spoofing conduct by former employees in US Treasuries markets between January 2008 and May 2014 and, separately, during approximately three months in 2018. The 2018 trading occurred during the term of a non-prosecution agreement (NPA) between NWMSI and the United States Attorney's Office for the District of Connecticut (USAO CT), under which non-prosecution was conditioned on NWMSI and affiliated companies not engaging in criminal conduct during the term of the NPA. The relevant trading in 2018 was conducted by two NWM traders in Singapore and breached that NPA. The plea agreement reached with the US Department of Justice and the USAO CT resolved both the spoofing conduct and the breach of the NPA.

As required by the resolution and sentence imposed by the court, NWM Plc is subject to a three-year period of probation. The plea agreement also imposes an independent corporate monitor. In addition, NWM Plc has committed to compliance programme reviews and improvements and agreed to reporting and co-operation obligations.

Other material adverse collateral consequences may occur as a result of this matter, as further described in the Risk Factors relating to legal, regulatory and governmental actions and investigations set out on page 146 to 148.

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Litigation and regulatory matters

RBSI inspection report and referral to enforcement

The Isle of Man Financial Services Authority undertook an inspection at The Royal Bank of Scotland International Limited (RBSI), Isle of Man, in 2021, following which it issued an inspection report. The inspection was in relation to anti-money laundering and counter-terrorist financing controls and procedures relating to specific RBSI customers. In May 2022, the FSA notified RBSI that it had been referred to its Enforcement Division in relation to certain issues identified in the inspection report.

RBSI reliance regime and referral to enforcement

In January 2023, the Jersey Financial Services Commission notified RBSI that it had been referred to its Enforcement Division in relation to RBSI's operation of the reliance regime. The reliance regime is specific to certain Crown Dependencies and enables the bank to rely on regulated third parties for specific due diligence information.

Investment advice review

In October 2019, the FCA notified NatWest Group of its intention to appoint a Skilled Person under section 166 of the Financial Services and Markets Act 2000 to conduct a review of whether NatWest Group's past business review of investment advice provided during 2010 to 2015 was subject to appropriate governance and accountability and led to appropriate customer outcomes. The Skilled Person's review has concluded and, after discussion with the FCA, NatWest Group has now commenced additional review / remediation work.

Review and investigation of treatment of tracker mortgage customers in Ulster Bank Ireland DAC

In December 2015, correspondence was received from the CBI setting out an industry examination framework in respect of the sale of tracker mortgages from approximately 2001 until the end of 2015. The redress and compensation process has now largely concluded, although certain cases remain outstanding.

UBIDAC customers have lodged tracker mortgage complaints with the Financial Services and Pensions Ombudsman (FSPO). UBIDAC is challenging three FSPO adjudications in the Irish High Court. The outcome and impact of that challenge on those and related complaints is uncertain but may be material.

Other customer remediation in Ulster Bank Ireland DAC

UBIDAC has identified further legacy business issues and these remediation programmes are ongoing.

27 Analysis of the net investment in business interests and intangible assets

This note shows cash flows relating to obtaining or losing control of associates or subsidiaries and net assets and liabilities purchased and sold. These cash flows are presented as investing activities on the cash flow statement.

	2022 £m	2021 £m	2020 £m
Acquisition of interests in associates	**(1)**	—	—
Additional investment in associates	**—**	(51)	(40)
Net assets/liabilities purchased	**—**	(3,128)	—
Net outflow of cash in respect of acquisitions	**(1)**	(3,179)	(40)
Sale of interests in associates	**—**	—	27
Disposal of net assets and liabilities	**6,270**	114	288
(Loss)/profit on disposal of net assets and liabilities	**(106)**	55	3
Net inflow of cash in respect of disposals	**6,164**	169	318
Cash expenditure on intangible assets	**(743)**	(479)	(348)
Net inflow/(outflow) of cash	**5,420**	(3,489)	(70)

28 Analysis of changes in financing during the year

This note shows cash flows and non-cash movements relating to the financing activities of the Group. These activities reflect movements in share capital, share premium, paid-in equity, subordinated liabilities and MRELs.

	Share capital, share premium, and paid-in equity			Subordinated liabilities			MRELs		
	2022 £m	2021 £m	2020 £m	2022 £m	2021 £m	2020 £m	2022 £m	2021 £m	2020 £m
At 1 January	**16,519**	18,239	17,246	**8,429**	9,962	9,979	**23,423**	20,873	19,249
Issue of paid-in equity	**—**	937	2,218	**—**	—	—	**—**	—	—
Issue of subordinated liabilities	**—**	—	—	**648**	1,634	1,631	**—**	—	—
Redemption of subordinated liabilities	**—**	—	—	**(3,693)**	(4,765)	(3,502)	**—**	—	—
Interest on subordinated liabilities	**—**	—	—	**(374)**	(321)	(510)	**—**	—	—
Issue of MRELs	**—**	—	—	**—**	—	—	**3,721**	3,383	1,309
Maturity and redemption of MRELs	**—**	—	—	**—**	—	—	**(4,992)**	—	(2)
Interest on MRELs	**—**	—	—	**—**	—	—	**(703)**	(647)	(671)
Net cash inflow/(outflow) from financing	**—**	937	2,218	**(3,419)**	(3,452)	(2,381)	**(1,974)**	2,736	636
Ordinary shares issued	**—**	87	52	**—**	—	—	**—**	—	—
Share cancellation	**(929)**	(698)	—	**—**	—	—	**—**	—	—
Effects of foreign exchange	**—**	—	—	**597**	(18)	(234)	**1,889**	(190)	(514)
Changes in fair value of subordinated liabilities and MRELs	**—**	—	—	**(594)**	(434)	133	**(1,806)**	(649)	829
Preference shares reclassified to subordinated liabilities	**—**	—	—	**750**	—	—	**—**	—	—
Paid in equity reclassified to subordinated liabilities	**—**	(2,046)	(1,277)	**—**	1,915	1,632		—	—
Loss on sale of subordinated liabilities and MRELs	**—**	—	—	**161**	145	324	**—**	—	—
Interest on subordinated liabilities and MRELs	**—**	—	—	**370**	311	509	**733**	653	673
Other adjustments	**—**	—	—	**(34)**	—	—	**—**	—	—
At 31 December	**15,590**	16,519	18,239	**6,260**	8,429	9,962	**22,265**	23,423	20,873

29 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.

	2022 £m	2021 £m	2020 £m
At 1 January	**190,706**	139,199	100,588
Net (decrease)/increase in cash and cash equivalents	**(32,257)**	51,507	38,611
At 31 December	**158,449**	190,706	139,199
Comprising:			
Cash and balances at central banks	**144,832**	177,757	124,489
Trading assets	**8,551**	7,137	9,220
Other financial assets	**19**	16	173
Loans to banks (1)	**5,047**	5,796	5,317
Cash and cash equivalents	**158,449**	190,706	139,199

(1) Includes cash collateral posted with bank counterparties in respect of derivative liabilities of £4,805 million (2021 - £4,293 million; 2020 - £7,592 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. Natwest Markets N.V. had mandatory reserve deposits with De Nederlandsche Bank N.V. of €64 million (2021 - €60 million, 2020 - €81 million). The Royal Bank of Scotland International (Holdings) Limited had balances with Central Bank of Luxembourg of £108 million (2021 - £123 million, 2020 - £59 million)

30 Directors' and key management remuneration

Directors and key management are remunerated for services rendered in the period. The executive directors may participate in the company's long-term incentive plans, executive share option and sharesave schemes and details of their interests in the company's shares arising from their participation are given in the directors' remuneration report. Details of the remuneration received by each director are also given in the directors' remuneration report.

Key management comprises members of the NatWest Group plc and NWH Ltd Boards, members of the NatWest Group plc and NWH Ltd Executive Committees, and the Chief Executives of NatWest Markets Plc and RBS International (Holdings) Limited. This is on the basis that these individuals have been identified as Persons Discharging Managerial Responsibilities of NatWest Group plc under the new governance structure.

Directors' remuneration	**2022 £000**	2021 £000
Non-executive directors emoluments	**1,685**	1,641
Chairman and executive directors emoluments	**5,804**	4,688
	7,489	6,329
Amounts receivable under long-term incentive plans and share option plans	**542**	549
Total	**8,031**	6,878

Compensation of key management

The aggregate remuneration of directors and other members of key management during the year was as follows:

	2022 £000	2021 £000
Short-term benefits	**22,175**	17,303
Post-employment benefits	**732**	820
Share-based payments	**2,547**	2,491
	25,454	20,614

Short term benefits include benefits expected to be settled wholly within twelve months of Balance Sheet date. Post-employment benefits include defined benefit contributions for active members and pension funding to support contributions to the defined contribution schemes. Share-based payments include awards vesting under rewards schemes.

31 Transactions with directors and key management

This note presents information relating to any transactions with directors and key management. Key management comprises directors of the company and Persons Discharging Managerial Responsibilities (PDMRs) of NatWest Group plc.

For the purposes of IAS 24 Related party disclosures, key management comprises directors of the company and PDMRs of NatWest Group plc. Key management have banking relationships with NatWest Group entities which are entered into in the normal course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with other persons of a similar standing or, where applicable, with other employees. These transactions did not involve more than the normal risk of repayment or present other unfavourable features.

Amounts in the table below are attributed to each person at their highest level of NatWest Group key management.

	2022 £000	2021 £000
Loans to customers - amortised cost	**12,137**	9,128
Customer deposits	**47,866**	51,018

At 31 December 2022, amounts outstanding in relation to transactions, arrangements and agreements entered into by authorised institutions in NatWest Group, as defined in UK legislation, were £9,636,586 in respect of loans to 8 persons who were directors of the company at any time during the financial period.

32 Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements. Transactions between an entity and any related party are disclosed in the financial statements in accordance with both accounting standards and relevant listing rules to ensure readers are aware of how financial statements may be affected by these transactions.

UK Government

The UK Government through HM Treasury is the ultimate controlling party of The NatWest Group plc. The UK Government's shareholding is managed by UK Government Investments Limited, a company wholly owned by the UK Government. As a result the UK Government and UK Government controlled bodies are related parties of the Group.

At 31 December 2022 HM Treasury's holding in the company's ordinary shares was 45.97%.

NatWest Group enters into transactions with many of these bodies. Transactions include the payment of: taxes – principally UK corporation tax (Note 7) and value added tax; national insurance contributions; local authority rates; and regulatory fees and levies (including the bank levy (Note 3) and FSCS levy (Note 26) - together with banking transactions such as loans and deposits undertaken in the normal course of banker-customer relationships.

Bank of England facilities

NatWest Group may participate in a number of schemes operated by the Bank of England in the normal course of business.

Members of NatWest Group that are UK authorised institutions are required to maintain non-interest bearing (cash ratio) deposits with the Bank of England amounting to 0.403% of their average eligible liabilities in excess of £600 million. They also have access to Bank of England reserve accounts: sterling current accounts that earn interest at the Bank of England Base rate.

NatWest Group provides guarantees for certain subsidiaries liabilities to the Bank of England.

Other related parties

- In their roles as providers of finance, NatWest Group companies provide development and other types of capital support to businesses. These investments are made in the normal course of business.
- To further strategic partnerships, NatWest group may seek to invest in third parties or allow third parties to hold a minority interest in a subsidiary of NatWest group. We disclose as related parties where stakes of 10 per cent or more are held. Ongoing business transactions with these entities are on normal commercial terms.
- We hold investments and other assets of £871 million and total liabilities of £4.5 million.
- NatWest Group recharges NatWest Group Pension Fund with the cost of administration services incurred by it. The amounts involved are not material to NatWest Group.
- During February 2023, the Group has entered into an agreement to establish a new legal structure to hold assets, consolidated on the Group's balance sheet, to meet potential future contributions required by the Main section of the Group' Pension Fund. This transaction will require a future transfer of £471 million to the Reservoir Trust once the final dividend for 2022 approved by shareholders. This transaction does not create a pension liability with the Main section of the Group Pension Fund. See further details in note 5 and note 33.
- In accordance with IAS 24, transactions or balances between NatWest Group entities that have been eliminated on consolidation are not reported.
- The primary financial statements of the parent company include transactions and balances with its subsidiaries which have been further disclosed in the relevant notes.

33 Post balance sheet events

A post balance sheet event is an event that takes place between 31 December 2022 (reporting date) and 16 February 2023 (date of approval of these financial statements). Significant events are included in the financial statements either to provide new information about conditions that existed at 31 December 2022, including estimates used to prepare the financial statements (known as an adjusting event) or to provide new information about conditions that did not exist at 31 December 2022 (non-adjusting events). This note provides information relating to material non-adjusting events.

On 6 February 2023, NWB reached agreement with the trustees of the Main Section of the Group pension scheme to recognise that the final distribution linked contribution to the Main Scheme, of up to £471 million, in 2023 is not expected to be required. In its place, agreement was reached to establish a new legal structure to hold assets with a value equivalent to £471 million. These assets would become transferrable to the Main section in the event that future triggers, reflecting a funding requirement, were met. The assets are not de-recognised from NWB balance sheet but are recorded as encumbered. The Group believes likelihood of triggers being met are remote given the current funding position of the Main section.

Other than as disclosed in the accounts, there have been no other significant events between 31 December 2022 and the date of approval of these accounts which would require a change or additional disclosure.

Non-IFRS financial measures

NatWest Group prepares its financial statements in accordance with generally accepted accounting principles (GAAP). This document contains a number of adjusted or alternative performance measures, also known as non-GAAP or non-IFRS performance measures. These measures are adjusted for notable and other defined items which management believes are not representative of the underlying performance of the business and which distort period-on-period comparison. The non-IFRS measures provide users of the financial statements with a consistent basis for comparing business performance between financial periods and information on elements of performance that are one-off in nature. The non-IFRS measures also include the calculation of metrics that are used throughout the banking industry. These non-IFRS measures are not measures within the scope of IFRS and are not a substitute for IFRS measures.

1. Go-forward group

Further progress with respect to the phased withdrawal from the Republic of Ireland has resulted in Ulster Bank RoI continuing operations no longer meeting the IFRS definition of an operating segment. Therefore Ulster Bank RoI is no longer shown separately and performance on a Go-forward group basis (NatWest Group excluding Ulster Bank RoI) will not be reported going forward. Selected Go-forward group metrics are still included to align with 2022 targets and guidance previously provided and the financial measures in 2022 executive director performance assessment.

Go-forward group income excluding notable items

Go-forward group income excluding notable items is calculated as total income excluding Ulster Bank RoI total income and excluding notable items of the Go-forward group.

The exclusion of notable items aims to remove the impact of one-offs which may distort period-on-period comparisons.

	2022 £m	2021 £m	2020 £m
Continuing operations			
Total income	**13,156**	10,429	10,403
Less Ulster Bank RoI total income	**53**	(145)	(117)
Go-forward group income	**13,209**	10,284	10,286
Less notable items	**(146)**	(210)	384
Go-forward group total income excluding notable items	**13,063**	10,074	10,670

Go-forward group other operating expenses

Other operating expenses is calculated as operating expenses less litigation and conduct costs. Other operating expenses of the Go-forward group excludes Ulster Bank RoI.

Our cost target for 2022 is based on this measure and we track progress against it.

	2022 £m	2021 £m	2020 £m
Continuing operations			
Operating expenses	**7,687**	7,758	7,858
Less litigation and conduct costs	**(385)**	(466)	(385)
Other operating expenses	**7,302**	7,292	7,473
Less Ulster Bank RoI other operating expenses	**(654)**	(443)	(434)
Go-forward group other operating expenses	**6,648**	6,849	7,039

2. Operating expenses - management view

The management analysis of operating expenses shows litigation and conduct costs on a separate line. These amounts are included within staff costs and other administrative expenses in the statutory analysis. Other operating expenses excludes litigation and conduct costs, which are more volatile and may distort comparisons with prior periods.

Statutory analysis

	Year ended		
Operating expenses	31 December 2022 £m	31 December 2021 £m	31 December 2020 £m
Continuing operations			
Staff expenses	**3,716**	3,676	3,878
Premises and equipment	**1,112**	1,133	1,222
Depreciation and amortisation	**833**	923	913
Other administrative expenses	**2,026**	2,026	1,845
Total	**7,687**	7,758	7,858

Non-statutory analysis

	Year ended 31 December 2022		
Operating expenses	Litigation and conduct costs	Other operating expenses	Statutory operating expenses
Continuing operations			
Staff expenses	**45**	**3,671**	**3,716**
Premises and equipment	**—**	**1,112**	**1,112**
Depreciation and amortisation	**—**	**833**	**833**
Other administrative expenses	**340**	**1,686**	**2,026**
Total	**385**	**7,302**	**7,687**

	31 December 2021		
Operating expenses	Litigation and conduct costs	Other operating expenses	Statutory operating expenses
Continuing operations			
Staff expenses	—	3,676	3,676
Premises and equipment	—	1,133	1,133
Depreciation and amortisation	—	923	923
Other administrative expenses	466	1,560	2,026
Total	466	7,292	7,758

	31 December 2020		
Operating expenses	Litigation and conduct costs	Other operating expenses	Statutory operating expenses
Continuing operations			
Staff expenses	—	3,878	3,878
Premises and equipment	—	1,222	1,222
Depreciation and amortisation	—	913	913
Other administrative expenses	113	1,732	1,845
Total	113	7,745	7,858

3. Cost:income ratio (excl. litigation and conduct)

NatWest Group uses cost:income ratio (excl. litigation and conduct) in the Outlook guidance. It is calculated as other operating expenses (operating expenses less litigation and conduct costs) divided by total income. Litigation and conduct costs are excluded as they are one-off in nature, difficult to forecast for Outlook purposes and distort period on period comparisons.

The calculation of the cost:income ratio (excl. litigation and conduct) is shown below, along with a comparison to cost:income ratio calculated using operating expenses.

Year ended 31 December 2022	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	NatWest Group £m
Continuing operations					
Operating expenses	**2,593**	**622**	**3,744**	**728**	**7,687**
Less litigation and conduct costs	**(109)**	**(12)**	**(181)**	**(83)**	**(385)**
Other operating expenses	**2,484**	**610**	**3,563**	**645**	**7,302**
Total income	**5,646**	**1,056**	**6,413**	**41**	**13,156**
Cost:income ratio	**45.9 %**	**58.9 %**	**58.4 %**	**nm**	**58.4 %**
Cost:income ratio (excl. litigation and conduct)	**44.0 %**	**57.8 %**	**55.6 %**	**nm**	**55.5 %**
Year ended 31 December 2021					
Continuing operations					
Operating expenses	2,513	520	3,757	968	7,758
Less litigation and conduct costs	(76)	3	(111)	(282)	(466)
Other operating expenses	2,437	523	3,646	686	7,292
Total income	4,445	816	4,838	330	10,429
Cost:income ratio	56.5 %	63.7 %	77.7 %	nm	74.4 %
Cost:income ratio (excl. litigation and conduct)	54.8 %	64.1 %	75.4 %	nm	69.9 %
Year ended 31 December 2020					
Continuing operations					
Operating expenses	2,540	455	4,031	832	7,858
Less litigation and conduct costs	(19)	26	7	(127)	(113)
Other operating expenses	2,521	481	4,038	705	7,745
Total income	4,181	763	5,578	(119)	10,403
Cost:income ratio	60.8 %	59.6 %	72.3 %	nm	75.5 %
Cost:income ratio (excl. litigation and conduct)	60.3 %	63.0 %	72.4 %	nm	74.4 %

4. NatWest Group return on tangible equity/Go-forward group return on tangible equity

Return on tangible equity comprises profit or loss for the period attributable to ordinary shareholders divided by average tangible equity. Average tangible equity is average total equity excluding average non-controlling interests, average other owners equity and average intangible assets.

Go-forward group return on tangible equity is calculated as profit for the period less Ulster Bank RoI divided by Go-forward group total tangible equity. Go-forward RWAe applying factor is the Go-forward group average RWAe as a percentage of total Natwest Group average RWAe.

This measure shows the return NatWest Group generates on tangible equity deployed. It is used to determine relative performance of banks and used widely across the sector, although different banks may calculate the rate differently. A reconciliation is shown below including a comparison to the nearest GAAP measure: return on equity. This comprises profit attributable to ordinary shareholders divided by average total equity.

	Year ended or as at	
	31 December 2022	31 December 2021
NatWest Group return on tangible equity	£m	£m
Profit attributable to ordinary shareholders	**3,340**	2,950
Average total equity	**38,210**	42,727
Adjustment for other owners equity and intangibles	**(11,153)**	(11,395)
Adjusted total tangible equity	**27,057**	31,332
Return on equity	**8.7 %**	6.9 %
NatWest Group return on tangible equity	**12.3 %**	9.4 %
Go-forward group return on tangible equity		
Profit attributable to ordinary shareholders	**3,340**	2,950
Less Ulster Bank RoI loss from continuing operations	**723**	414
Less loss/profit from discontinued operations	**262**	(464)
Go-forward group profit/(loss) attributable to ordinary shareholders	**4,325**	2,900
Average total equity	**38,210**	42,727
Adjustment for other owners equity and intangibles	**(11,153)**	(11,395)
Adjusted total tangible equity	**27,057**	31,332
Go-forward group RWAe applying factor	**95 %**	93 %
Go-forward group total tangible equity	**25,704**	29,139
Go-forward group return on tangible equity	**16.9 %**	10.0 %

5. Segmental return on equity

Segmental return on equity comprises segmental operating profit or loss, adjusted for preference share dividends, paid-in equity and tax, divided by average notional equity. Average RWAe is defined as average segmental RWAs incorporating the effect of capital deductions. This is multiplied by an allocated equity factor for each segment to calculate the average notional tangible equity.

This measure shows the return generated by operating segments on equity deployed.

Year ended 31 December 2022	Retail Banking	Private Banking	Commercial & Institutional
Operating profit (£m)	**2,824**	**436**	**2,547**
Paid-in equity cost allocation (£m)	**(80)**	**(15)**	**(187)**
Adjustment for tax (£m)	**(768)**	**(118)**	**(590)**
Adjusted attributable profit (£m)	**1,976**	**303**	**1,770**
Average RWAe (£bn)	**53.1**	**11.3**	**104.0**
Equity factor	**13.0 %**	**11.0 %**	**14.0 %**
Average notional equity (£bn)	**6.9**	**1.2**	**14.6**
Return on equity	**28.6 %**	**24.5 %**	**12.2 %**
Year ended 31 December 2021			
Operating profit (£m)	1,968	350	2,241
Preference share and paid-in equity cost allocation (£m)	(80)	(20)	(236)
Adjustment for tax (£m)	(529)	(92)	(501)
Adjusted attributable profit (£m)	1,359	238	1,504
Average RWAe (£bn)	36.0	11.2	106.0
Equity factor	14.5 %	12.5 %	13.0 %
Average notional equity (£bn)	5.2	1.4	13.8
Return on equity	26.1 %	17.0 %	10.9 %
Year ended 31 December 2020			
Operating profit/(loss) (£m)	849	208	(527)
Preference share and paid-in equity cost allocation (£m)	(88)	(22)	(241)
Adjustment for tax (£m)	(213)	(52)	192
Adjusted attributable profit/(loss) (£m)	548	134	(576)
Average RWAe (£bn)	37.2	10.4	120.7
Equity factor	14.5 %	12.5 %	13.0 %
Average notional equity (£bn)	5.4	1.3	15.7
Return on equity	10.2 %	10.3 %	(3.7)%

6. Bank net interest margin

Bank net interest margin is net interest income as a percentage of bank average interest-earning assets. Bank average interest earning assets are average interest earning assets of the banking business of NatWest Group excluding liquid asset buffer.

Liquid asset buffer consists of assets held by NatWest Group, such as cash and balances at central banks and debt securities in issue, that can be used to ensure repayment of financial obligations as they fall due. The exclusion of liquid asset buffer presents net interest margin on a basis more comparable with UK peers and excludes the impact of regulatory driven factors. A reconciliation is shown below including a comparison to the nearest GAAP measure: net interest margin. This is net interest income as a percentage of average interest earning assets.

	Year ended		
	31 December 2022 £m	31 December 2021 £m	31 December 2020 £m
Continuing operations			
NatWest Group net interest income	**9,842**	7,535	7,389
Average interest earning assets (IEA)	**544,162**	519,304	476,991
Less liquid asset buffer average IEA	**(198,927)**	(192,036)	(160,281)
Bank average IEA	**345,235**	327,268	316,710
Net interest margin	**1.81 %**	1.45 %	1.55 %
Bank net interest margin	**2.85 %**	2.30 %	2.33 %
Retail Banking			
Net interest income	**5,224**	4,074	3,868
Retail Banking average IEA	**210,404**	196,043	181,383
Less liquid asset buffer average IEA	**(19,581)**	(16,913)	(14,443)
Adjusted Retail Banking average IEA	**190,823**	179,130	166,940
Retail Banking net interest margin	**2.74 %**	2.27 %	2.32 %
Private Banking			
Net interest income	**777**	480	489
Private Banking average IEA	**29,308**	27,224	23,806
Less liquid asset buffer average IEA	**(10,221)**	(8,949)	(7,483)
Adjusted Private Banking average IEA	**19,087**	18,275	16,323
Private Banking net interest margin	**4.07 %**	2.63 %	3.00 %
Commercial & Institutional			
Net interest income	**4,171**	2,974	3,054
Commercial & Institutional average IEA	**245,316**	238,642	232,771
Less liquid asset buffer average IEA	**(119,244)**	(117,686)	(107,827)
Adjusted Commercial & Institutional average IEA	**126,072**	120,956	124,944
Commercial & Institutional net interest margin	**3.31 %**	2.46 %	2.44 %

7. Tangible net asset value (TNAV) per ordinary share

TNAV per ordinary share is calculated as tangible equity divided by the number of ordinary shares in issue.

This is a measure used by external analysts in valuing the bank and allows for comparison with other per ordinary share metrics including the share price.

	Year ended	
	31 December 2022	31 December 2021
Ordinary shareholders' interests (£m)	**32,598**	37,412
Less intangible assets (£m)	**(7,116)**	(6,723)
Tangible equity (£m)	**25,482**	30,689
Ordinary shares in issue (millions) (1)	**9,659**	11,272
TNAV per ordinary share (pence)	**264p**	272p

(1) The number of ordinary shares in issue excludes own shares held.

Performance metrics not defined under IFRS

Metrics based on GAAP measures, included as not defined under IFRS and reported for compliance with the European Securities and Markets Authority (ESMA) adjusted performance measure rules.

1. Loan:deposit ratio

Adjusted loan:deposit ratio is calculated as net customer loans held at amortised cost excluding reverse repos divided by total customer deposits excluding repos. Prior periods have been re-presented. This is a common metric used to assess liquidity. The removal of repos and reverse repos reduces volatility and presents the ratio on a basis that is comparable to UK peers.

A reconciliation is shown below including a comparison to the nearest GAAP measure: loan:deposit ratio. This is calculated as net loans to customers held at amortised cost divided by customer deposits.

	As at		
	31 December 2022 £m	31 December 2021 £m	31 December 2020 £m
Loans to customers - amortised cost	**366,340**	358,990	360,544
Less reverse repos	**(19,749)**	(25,962)	(25,011)
	346,591	333,028	335,533
Customer deposits	**450,318**	479,810	431,739
Less repos	**(9,828)**	(14,541)	(5,167)
	440,490	465,269	426,572
Loan:deposit ratio (%)	**81 %**	75 %	84 %
Loan:deposit ratio (excl. repos and reverse repos) (%)	**79 %**	72 %	79 %

2. Loan impairment rate

Loan impairment rate is the loan impairment charge divided by gross customer loans. This measure is used to assess the credit quality of the loan book.

3. Funded assets

Funded assets is calculated as total assets less derivative assets. This measure allows review of balance sheet trends exclusive of the volatility associated with derivative fair values.

4. AUMAs

AUMA comprises both assets under management (AUMs) and assets under administration (AUAs) serviced through the Private Banking business segments. AUMs comprise assets where the investment management is undertaken by Private Banking on behalf of Private Banking, Retail Banking and Commercial & Institutional customers. AUAs comprise third party assets held on an execution-only basis in custody by Private Banking, Retail Banking and Commercial & Institutional for their customers, for which the execution services are supported by Private Banking. Private Banking receives a fee for providing investment management and execution services to Retail Banking and Commercial & Institutional business segments.

This measure is tracked and reported as the amount of funds that we manage or administer directly impacts the level of investment income that we receive.

5. Net new money

Net new money refers to client cash inflows and outflows relating to investment products (this can include transfers from saving accounts). Net new money excludes the impact of EEA resident client outflows following the UK's exit from the EU and Russian client outflows since Q1 2022.

Net new money is reported and tracked to monitor the business performance of new business inflows and management of existing client withdrawals across Retail Banking, Private Banking and Commercial & Institutional Banking.

6. Wholesale funding

Wholesale funding comprises deposits by banks (excluding repos), debt securities in issue and subordinated liabilities. Funding risk is the risk of not maintaining a diversified, stable and cost-effective funding base. The disclosure of wholesale funding highlights the extent of our diversification and how we mitigate funding risk.

7. Third party rates

Third party customer asset rate is calculated as interest receivable on third-party loans to customers as a percentage of third-party loans to customers. This excludes assets of disposal groups, intragroup items, loans to banks and liquid asset portfolios. Third party customer funding rate reflects interest payable or receivable on third-party customer deposits, including interest bearing and non-interest bearing customer deposits. Intragroup items, bank deposits, debt securities in issue and subordinated liabilities are excluded for customer funding rate calculation.

These metrics help investors better understand our net interest margin and interest rate sensitivity.

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Financial summary

The geographic analysis, including the average balance sheet and interest rates, changes in net interest income and average interest rates, yields, spreads and margins in this report have generally been compiled on the basis of location of office - UK and overseas - unless indicated otherwise. 'UK' in this context includes transactions conducted through the offices in the UK which service international banking transactions.

Yields, spreads and margins of the banking business

	2022 %	2021 %	2020 %
Gross yield on interest-earning assets of the banking business (1)	**2.29**	1.74	2.01
Cost of interest-bearing liabilities of the banking business	**(0.71)**	(0.43)	(0.69)
Interest spread of the banking business (2)	**1.58**	1.31	1.32
Benefit from interest-free funds	**0.23**	0.14	0.23
Net interest margin of the banking business (3)	**1.81**	1.45	1.55
Gross yield (1,4)			
- Group	**2.29**	1.74	2.01
- UK	**2.42**	1.86	2.14
- Overseas	**0.31**	0.38	0.53
Interest spread (2,4)			
- Group	**1.58**	1.31	1.32
- UK	**1.70**	1.42	1.42
- Overseas	**(0.03)**	0.12	0.45
Net interest margin (3,4)			
- Group	**1.81**	1.45	1.55
- UK	**1.92**	1.56	1.63
- Overseas	**0.19**	0.27	0.50
NatWest Group plc base rate (average)	**3.50**	0.50	0.10

(1) Gross yield is the interest earned on average interest-earning assets of the banking book.
(2) Interest spread is the difference between the gross yield and the interest rate paid on average interest-bearing liabilities of the banking business.
(3) Net interest margin is net interest income as a percentage of average interest earning assets. Bank net interest margin is net interest income as a percentage of bank average interest-earning assets. Bank average interest earning assets are average interest earning assets of the banking business of NatWest Group excluding liquid asset buffer. Refer to the Non-IFRS financial measures section for details of the basis of preparation.
(4) The analysis into UK and overseas has been compiled on the basis of location of office.

Average balance sheet and related interest

		2022			2021		
		Average balance £m	Interest £m	Rate %	Average balance £m	Interest £m	Rate %
Assets							
Loans to banks	-UK	**146,705**	**1,859**	**1.27**	124,092	307	0.25
	-Overseas	**28,885**	**18**	**0.06**	31,389	(39)	(0.12)
Loans to customers	-UK	**328,467**	**9,972**	**3.04**	311,876	8,388	2.69
	-Overseas	**2,076**	**71**	**3.42**	8,987	198	2.21
Other financial assets	-UK	**34,632**	**525**	**1.52**	44,301	241	0.54
	-Overseas	**3,468**	**16**	**0.45**	4,242	11	0.27
Interest-earning assets	-UK	**509,804**	**12,356**	**2.42**	480,268	8,936	1.86
	-Overseas	**34,429**	**105**	**0.31**	44,618	171	0.38
Total interest-earning assets	-banking business (1,2,4)	**544,233**	**12,461**	**2.29**	524,886	9,107	1.74
	-trading business (3)	**69,618**			71,625		
Interest-earning assets		**613,851**			596,511		
Non-interest-earning assets		**151,653**			152,841		
Total assets		**765,504**			749,352		
Percentage of assets applicable to overseas operations		**10.44 %**			11.91 %		
Liabilities							
Bank deposits	-UK	**15,443**	**266**	**1.73**	4,862	40	0.82
	-Overseas	**279**	**3**	**0.91**	2,909	(13)	(0.45)
Customer deposits: demand	-UK	**98,226**	**210**	**0.21**	98,011	16	0.02
	-Overseas	**6,808**	**1**	**0.01**	6,365	—	—
Customer deposits: savings	-UK	**158,453**	**240**	**0.15**	154,236	349	0.23
	-Overseas	**2,068**	**—**	**—**	6,221	27	0.44
Customer deposits: other time	-UK	**14,755**	**285**	**1.93**	9,256	134	1.45
	-Overseas	**2,497**	**8**	**0.34**	3,218	2	0.07
Other financial liabilities	-UK	**45,910**	**1,161**	**2.53**	42,833	654	1.53
	-Overseas	**1,256**	**10**	**0.83**	1,131	15	1.36
Subordinated liabilities	-UK	**7,426**	**353**	**4.75**	7,973	249	3.12
	-Overseas	**459**	**17**	**3.76**	378	18	4.72
Internal funding of trading business	-UK	**15,590**	**65**	**0.41**	10,098	1	0.01
	-Overseas	**(1,774)**	**—**	**—**	(1,047)	1	(0.08)
Interest-bearing liabilities	-UK	**355,803**	**2,580**	**0.73**	327,270	1,443	0.44
	-Overseas	**11,593**	**39**	**0.34**	19,175	50	0.26
Total interest-bearing liabilities	-banking business (1)	**367,396**	**2,619**	**0.71**	346,445	1,493	0.43
	-trading business (3)	**68,505**			59,096		
Interest-bearing liabilities		**435,901**			405,541		
Non-interest-bearing liabilities:							
Demand deposits	-UK	**172,175**			169,717		
	-Overseas	**3,497**			4,234		
Other liabilities		**115,724**			127,144		
Total equity		**38,207**			42,716		
Total liabilities and equity		**765,504**			749,352		
Percentage of liabilities applicable to overseas operations		**7.82 %**			8.46 %		

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

Average balance sheet and related interest continued

		2020		
		Average balance £m	Interest £m	Rate %
Assets				
Loans to banks	-UK	92,811	342	0.37
	-Overseas	20,036	(60)	(0.30)
Loans to customers	-UK	301,810	8,729	2.89
	-Overseas	12,106	255	2.11
Other financial assets	-UK	52,006	470	0.90
	-Overseas	4,950	2	0.04
Interest-earning assets	-UK	446,627	9,541	2.14
	-Overseas	37,092	197	0.53
Total interest-earning assets	-banking business (1,2,4)	483,719	9,738	2.01
	-trading business (3)	88,757		
Interest-earning assets		572,476		
Non-interest-earning assets		226,747		
Total assets		799,223		
Percentage of assets applicable to overseas operations		11.01 %		
Liabilities				
Bank deposits	-UK	13,800	134	0.97
	-Overseas	2,501	(46)	(1.84)
Customer deposits: demand	-UK	83,507	61	0.07
	-Overseas	1,113	(9)	(0.81)
Customer deposits: savings	-UK	139,181	665	0.48
	-Overseas	7,014	10	0.14
Customer deposits: other time	-UK	14,085	166	1.18
	-Overseas	4,969	23	0.46
Other financial liabilities	-UK	44,477	836	1.88
	-Overseas	1,794	(0)	(0.01)
Subordinated liabilities	-UK	10,003	370	3.70
	-Overseas	(36)	32	(88.89)
Internal funding of trading business	-UK	8,046	19	0.24
	-Overseas	(4,878)	—	—
Interest-bearing liabilities	-UK	313,099	2,251	0.72
	-Overseas	12,477	10	0.08
Total interest-bearing liabilities	-banking business (1)	325,576	2,261	0.69
	-trading business (3)	98,562		
Interest-bearing liabilities		424,138		
Non-interest-bearing liabilities:				
Demand deposits	-UK	138,751		
	-Overseas	8,315		
Other liabilities		184,273		
Total equity		43,746		
Total liabilities and equity		799,223		
Percentage of liabilities applicable to overseas operations		8.79 %		

(1) Interest receivable and interest payable have both been decreased by £177 million (2021 - £206 million decrease; 2020 - £60 million decrease) in respect of negative interest relating to financial assets that attracted negative interest.
(2) Interest receivable includes £596 million (2021 - £494 million; 2020 - £350 million) in respect of loan fees forming part of the effective interest rate of loans and receivables.
(3) Interest receivable and interest payable on trading assets and liabilities are included in income from trading activities.
(4) Interest receivable includes amounts (unwind of discount) recognised on impaired loans and receivables. The average balances of such loans are included in average loans to banks and loans to customers.
(5) The analysis into UK and overseas has been compiled on the basis of location of office.
(6) 2022, 2021 and 2020 Loans and advances to customers average balances have been reclassified to exclude assets held for sale (2022 - £12.69 billion, 2021 - £9.45 billion, 2020 - £9.75 billion)

Other financial data	**2022 £m**	2021 £m	2020 £m
Return on average total assets (1)	**0.4 %**	0.4 %	(0.1)%

(1) Represents profit/(loss) attributable to ordinary shareholders as a percentage of average total assets.

Ratios

	Personal				Wholesale					Total
2022	**Mortgages**	**Credit cards**	**Other personal**	**Total**	**Property**	**Corporate**	**FI**	**Sovereign**	**Total**	
Average loans (£m)	**197,287**	**4,050**	**9,189**	**210,526**	**31,595**	**81,880**	**100,169**	**5,084**	**218,728**	**429,254**
Provision charges/(releases) (£m)	**(74)**	**56**	**259**	**241**	**126**	**(47)**	**19**	**(2)**	**96**	**337**
As a % of average loans during the year										
Total provisions charged/(released) to income statement	**(0.04)%**	**1.38 %**	**2.82 %**	**0.11 %**	**0.40 %**	**(0.06)%**	**0.02 %**	**(0.05)%**	**0.04 %**	**0.08 %**
2021										
Average loans (£m)	194,935	3,651	8,866	207,453	33,491	76,743	95,927	3,907	210,067	417,520
Provision charges/(releases)	(58)	(14)	30	(42)	(477)	(724)	(38)	3	(1,236)	(1,278)
As a % of average loans during the year										
Total provisions charged/(released) to income statement	(0.03)%	(0.38)%	0.34 %	(0.02)%	(1.42)%	(0.94)%	(0.04)%	0.08 %	(0.59)%	(0.31)%
2020										
Average loans (£m)	182,151	3,836	9,325	195,312	35,925	81,698	107,769	3,058	228,450	423,763
Provision charges/(releases)	276	191	422	889	733	1,407	95	7	2,242	3,131
As a % of average loans during the year										
Total provisions charged/(released) to income statement	0.15 %	4.98 %	4.53 %	0.46 %	2.04 %	1.72 %	0.09 %	0.23 %	0.98 %	0.74 %

Loans

2022	Less than 1 year £m	1-5 Years £m	5-15 years £m	More than 15 years £m	Total £m
Personal					
Mortgages	10,975	40,179	86,595	65,048	202,797
Credit cards	781	1,242	1,510	1,035	4,568
Other personal	4,881	4,129	849	236	10,095
Wholesale					
Property	6,920	15,294	5,237	2,377	29,828
Financial institutions	59,328	32,381	9,333	4,903	105,945
Sovereign	40,635	10,654	1,229	157	52,675
Corporate	3,200	400	484	41	4,125
Total	126,720	104,279	105,237	73,797	410,033
of which:					
Amortised cost					
Fixed interest rates	38,580	50,118	85,107	63,276	237,081
Variable interest rates	52,314	53,492	20,169	10,423	136,398
Trading assets					
Fixed interest rates	17,179	129	—	—	17,308
Variable interest rates	17,950	277	120	—	18,347
Other financial asset					
Fixed interest rates	115	64	150	54	383
Variable interest rates	110	211	154	41	516

Analysis of change in net interest income - volume and rate analysis

Volume and rate variances have been calculated based on movements in average balances over the period and changes in interest rates on average interest-earning assets and average interest-bearing liabilities. Changes due to a combination of volume and rate are allocated pro rata to volume and rate movements.

	2022 over 2021 - statutory (Decrease)/increase due to changes in:			2021 over 2020 - statutory (Decrease)/increase due to changes in:		
	Average volume	Average rate	Net change	Average volume	Average rate	Net change
	£m	£m	£m	£m	£m	£m
Interest-earning assets						
Loans to banks						
UK	**66**	**1,485**	**1,551**	96	(131)	(35)
Overseas	**3**	**54**	**57**	(25)	46	21
Loans to customers						
UK	**460**	**1,125**	**1,585**	282	(623)	(341)
Overseas	**(201)**	**74**	**(127)**	(68)	12	(56)
Other financial assets						
UK	**(63)**	**346**	**283**	(62)	(167)	(229)
Overseas	**(2)**	**7**	**5**	—	10	10
Total interest receivable of the banking business						
UK	**463**	**2,956**	**3,419**	316	(921)	(605)
Overseas	**(200)**	**135**	**(65)**	(93)	68	(25)
	263	**3,091**	**3,354**	223	(853)	(630)
Interest-bearing liabilities						
Bank deposits						
UK	**(150)**	**(77)**	**(227)**	76	18	94
Overseas	**(4)**	**(12)**	**(16)**	7	(39)	(32)
Customer deposits: demand						
UK	**—**	**(194)**	**(194)**	(8)	53	45
Overseas	**—**	**—**	**—**	7	(16)	(9)
Customer deposits: savings						
UK	**(10)**	**118**	**108**	(65)	382	317
Overseas	**11**	**17**	**28**	1	(18)	(17)
Customer deposits: other time						
UK	**(97)**	**(54)**	**(151)**	65	(33)	32
Overseas	**1**	**(7)**	**(6)**	6	15	21
Other financial liabilities						
UK	**(50)**	**(457)**	**(507)**	30	152	182
Overseas	**(2)**	**6**	**4**	—	(16)	(16)
Subordinated liabilities						
UK	**18**	**(122)**	**(104)**	68	53	121
Overseas	**(3)**	**4**	**1**	13	1	14
Internal funding of trading business						
UK	**(1)**	**(63)**	**(64)**	(4)	22	18
Overseas	**—**	**1**	**1**	—	(1)	(1)
Total interest payable of the banking business						
UK	**(290)**	**(849)**	**(1,139)**	162	647	809
Overseas	**3**	**9**	**12**	34	(74)	(40)
	(287)	**(840)**	**(1,127)**	196	573	769
Movement in net interest income						
UK	**173**	**2,107**	**2,280**	478	(274)	204
Overseas	**(197)**	**144**	**(53)**	(59)	(6)	(65)
	(24)	**2,251**	**2,227**	419	(280)	139

Analysis of debt securities - fair value through other comprehensive income

The following table analyses debt securities and the related yield (based on weighted averages) by remaining maturity and issuer:

	Within 1 year		After 1 but within 5 years		After 5 but within 10 years		After 10 years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
2022	£m	%	£m	%	£m	%	£m	%	£m	%
Central and local governments										
- UK	**—**	**—**	**154**	**4.0**	**137**	**1.1**	**511**	**2.7**	**802**	**2.7**
- US	**2,120**	**1.2**	**3,934**	**2.2**	**850**	**3.1**	**271**	**3.2**	**7,175**	**2.1**
- Other	**1,168**	**0.6**	**501**	**0.9**	**—**	**—**	**88**	**2.9**	**1,757**	**0.8**
Other debt	**1,099**	**1.3**	**4,232**	**1.9**	**1,309**	**1.3**	**125**	**2.1**	**6,765**	**1.7**
	4,387	**1.0**	**8,821**	**2.1**	**2,296**	**1.9**	**995**	**2.8**	**16,499**	**1.8**
Of which ABS (1)	**425**	**1.6**	**1,993**	**1.8**	**470**	**1.0**	**73**	**3.1**	**2,961**	**1.7**
2021										
Central and local governments										
- UK	1,299	2.2	1,981	1.1	2,048	0.7	6,610	1.2	11,938	1.2
- US	2,732	1.3	4,666	1.8	1,173	2.6	1,515	2.5	10,086	1.9
- Other	1,763	0.5	2,667	0.7	390	1.0	784	1.6	5,604	0.8
Other debt	1,840	0.8	5,030	0.8	1,987	0.6	201	0.6	9,058	0.7
	7,634	1.1	14,344	1.1	5,598	1.1	9,110	1.4	36,686	1.2
Of which ABS (1)	460	1.3	2,176	0.6	986	0.4	116	0.6	3,738	0.6
2020										
Central and local governments										
- UK	974	4.5	4,401	3.2	4,613	1.9	7,470	2.3	17,458	2.6
- US	2,170	1.3	5,186	1.7	2,575	2.2	1,811	2.3	11,742	1.8
- Other	2,421	1.0	2,681	0.6	725	0.6	975	1.5	6,802	0.9
Other debt	1,380	1.2	5,085	0.8	1,999	0.6	127	0.5	8,591	0.8
	6,945	1.6	17,353	1.7	9,912	1.6	10,383	2.2	44,593	1.8
Of which ABS (1)	229	1.6	1,879	0.8	806	1.6	127	0.5	3,041	0.7

(1) Includes covered bonds.

Analysis of debt securities – amortised cost

The following table analyses debt securities at amortised cost and the related yield (based on weighted averages) by remaining maturity and issuer.

	Within 1 year		After 1 but within 5 years		After 5 but within 10 years		After 10 years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
2022	£m	%	£m	%	£m	%	£m	%	£m	%
Central and local governments										
- UK	**811**	**1.5**	**1,330**	**1.5**	**421**	**0.6**	**—**	**—**	**2,562**	**1.3**
- US	**297**	**0.9**	**640**	**0.9**	**—**	**—**	**—**	**—**	**937**	**0.9**
- Other	**18**	**0.9**	**36**	**0.9**	**—**	**—**	**—**	**—**	**54**	**0.9**
Other debt	**786**	**2.3**	**3,919**	**4.7**	**2,316**	**1.9**	**2,561**	**1.2**	**9,582**	**2.9**
Total	**1,912**	**1.7**	**5,925**	**3.5**	**2,737**	**1.7**	**2,561**	**1.2**	**13,135**	**2.4**
2021										
Central and local governments										
- UK	1,442	1.9	1,946	1.1	433	0.1	—	—	3,821	1.3
- US	70	1.0	86	1.0	—	—	—	—	156	1.0
- Other	29	1.0	52	1.0	—	—	—	—	81	1.0
Other debt	1,580	2.3	501	4.2	655	2.7	1,768	0.7	4,504	2.0
Total	3,121	2.1	2,585	1.7	1,088	1.7	1,768	0.7	8,562	1.6

Analysis of deposits - product analysis

The following table analyses deposits excluding repos by geographical area (location of office) and type of deposit.

	2022 £m	2021 £m	2020 £m
UK			
Deposits			
- interest-free	**174,337**	180,077	161,153
- interest-bearing	**286,023**	293,903	274,420
Total UK	**460,360**	473,981	435,573
Overseas			
Deposits			
- interest-free	**2,708**	4,949	10,227
- interest-bearing	**16,213**	24,546	20,737
Total overseas	**18,921**	29,494	30,964
Total deposits	**479,281**	503,475	466,537
Overseas			
US	**22**	264	20
Rest of the World	**18,899**	29,230	30,944
Total overseas	**18,921**	29,494	30,964
Repos			
UK	**19,991**	27,135	17,565
US	**14,647**	13,956	12,833
Rest of the World	**377**	750	275
Total repos	**35,015**	41,842	30,673

Certificates of deposit and other time deposits

The following table shows certificates of deposit and other time deposits over $100,000 or equivalent by remaining maturity.

2022	0-3 months £m	3-6 months £m	6-12 months £m	Over 12 months £m	Total £m
UK based companies and branches					
Certificates of deposit	**1,774**	**312**	**279**	**85**	**2,450**
Other time deposits	**10,932**	**5,617**	**4,056**	**14,553**	**35,158**
Overseas based companies and branches					
Other time deposits	**1,361**	**263**	**328**	**166**	**2,118**
	14,067	**6,192**	**4,663**	**14,804**	**39,726**

Time deposits

	2022 £m	2021 £m	2020 £m
US time deposits in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit	**(39,149)**	(25,623)	(34,958)
Uninsured time deposits by maturity			
0-3 months	**(12,573)**	(5,411)	(14,578)
3-6 months	**(6,274)**	(3,094)	(6,015)
6-12 months	**(4,889)**	(2,877)	(5,025)
Over 12 months	**(15,414)**	(14,241)	(9,340)

Short-term borrowings

Short-term borrowings comprise repurchase agreements, borrowings from financial institutions, commercial paper and certificates of deposit. Derivative collateral received from financial institutions is excluded from the table, as are certain long-term borrowings.

	At year end		During the year		
2022	Balance £bn	Weighted average interest rate %	Maximum balance £bn	Average balance £bn	Weighted average interest rate %
Repos	**35**	**1.5**	**58**	**47**	**0.9**
Financial institutions (1)	**57**	**0.5**	**76**	**65**	**0.2**
Commercial paper	**3**	**1.5**	**24**	**5**	**0.2**
Certificates of deposits	**2**	**3.0**	**5**	**3**	**1.0**
Total	**97**	**1.0**	**163**	**120**	**0.5**
2021					
Repos	42	(0.2)	51	42	(0.3)
Financial institutions (1)	65	0.1	70	64	0.1
Commercial paper	4	(0.1)	5	4	—
Certificates of deposits	5	0.1	5	4	0.1
Total	116	—	131	114	(0.1)
2020					
Repos	31	(0.3)	47	32	0.3
Financial institutions (1)	60	0.1	66	59	0.1
Commercial paper	4	0.1	4	3	0.4
Certificates of deposits	3	0.2	4	3	0.5
Total	98	0.0	121	97	0.2

(1) Excludes derivative cash collateral of £18 billion at 31 December 2022 (2021 - £18 billion; 2020 - £23 billion); and 2022 average of £19 billion (2021 - £18 billion; 2020 - £26 billion).

Balances are generally based on monthly data. Average interest rates during the year are computed by dividing total interest expense by the average amount borrowed. Weighted average interest rates at year end are for a single day and as such may reflect one-day market distortions, which may not be indicative of generally prevailing rates.

Other contractual cash obligations

The table below summarises other contractual cash obligations by payment date.

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
Contractual obligations to purchase goods or services	**86**	**236**	**279**	**75**	**3**	**—**
	86	**236**	**279**	**75**	**3**	**—**
2021						
Contractual obligations to purchase goods or services	75	226	318	63	—	—
	75	226	318	63	—	—
2020						
Contractual obligations to purchase goods or services	75	192	362	92	8	—
	75	192	362	92	8	—

Undrawn formal facilities, credit lines and other commitments to lend were £118,779 million (2021 - £118,536 million; 2020 - £121,922 million). While NatWest Group has given commitments to provide these funds, some facilities may be subject to certain conditions being met by the counterparty. NatWest Group does not expect all facilities to be drawn, and some may lapse before drawdown.

Exchange rates

The following tables show the Noon Buying Rate in New York for cable transfers in sterling as certified for customs purposes by the Federal Reserve Bank of New York.

US dollars per £1	January 2023	December 2022	November 2022	October 2022	September 2022	August 2022
Noon Buying Rate						
High	**1.2379**	1.2408	1.2102	1.1615	1.1701	1.2278
Low	**1.1902**	1.2032	1.1183	1.1096	1.0703	1.1647

	2022	2021	2020	2019	2018
Noon Buying Rate					
Period end rate	**1.2077**	1.3500	1.3662	1.3269	1.2763
Average rate for the year (1)	**1.2323**	1.3739	1.2923	1.2803	1.3309
Consolidation rate (2)					
Period end rate	**1.2040**	1.3486	1.3655	1.3200	1.2790
Average rate for the year	**1.2370**	1.3755	1.2836	1.2771	1.3350

(1) The average of the Noon Buying Rates on the last US business day of each month during the year.
(2) The rates used for translating US dollars into sterling in the preparation of the financial statements.
(3) On 17 February 2023, the Noon Buying Rate was £1.2012.

ADR payment information

Fees paid by ADR holders

The depositary collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees.

The depository may collect its annual fee for depository services by deductions from cash distributions or by directly billing investors or by changing the book-entry system accounts of participants acting for them. The depository may generally refuse to provide fee-attracting services until its fees for those services are paid.

Persons depositing or withdrawing shares must pay:	For:
$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)	Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property. Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates.
$0.02 (or less) per ADS	Any cash distribution to ADS registered holders.
A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs	Distribution of securities distributed to holders of securities of deposited securities to ADS registered holders.
Registration or transfer fees	Transfer and registration of shares on our share register to or from the name of the depository or its agent when you deposit or withdraw shares.
Expenses of the depository	Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement). Converting foreign currency to U.S. dollars.
Taxes and other governmental charges the depositary or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes	As necessary.
Any charges incurred by the depository or its agents for servicing the deposited securities	As necessary.

Fees payable by the depository to the issuer

Fees incurred in past annual Period

From 1 January 2022 to 31 December 2022, the company received from the depository $775,289 for continuing annual stock exchange listing fees, standard out-of-pocket maintenance costs for the ADRs (consisting of the expenses of postage and envelopes for mailing annual and interim financial reports, printing and distributing dividend cheques, electronic filling of U.S. Federal tax information, mailing required tax forms, stationary, postage, facsimile, and telephone calls), any applicable performance indicators relating to the ADR facility, underwriting fees and legal fees.

Fees to be paid in the future

The Bank of New York Mellon, as depository, has agreed to reimburse the company for expenses they incur that are related to establishment and maintenance expenses of the ADS program. The depository has agreed to reimburse the Company for its continuing annual stock exchange listing fees. The depository has also agreed to pay the standard out-of-pocket maintenance costs for the ADRs, which consist of the expenses of postage and envelopes for mailing annual and interim reports, printing and distributing dividend cheques, electronic filing of U.S. federal tax information, mailing required tax forms, stationary, postage, facsimile, and telephone calls. It has also agreed to reimburse the company annually for certain investor relationship programs of special investor relations promotional activities. In certain instances, the depository has agreed to provide additional payments to the company based on any applicable performance indicators relating to the ADR facility. There are limits on the amount of expenses for which the depository will reimburse the company, but the amount of reimbursement available to the company is not necessarily tied to the amount of fees the depository collects from investors.

Risk factors

Principal Risks and Uncertainties

Set out below are certain risk factors that could adversely affect NatWest 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 sections of this annual report, including the forward-looking statements section, the strategic report and the risk and capital management section. They should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties facing NatWest Group.

Economic and political risk

NatWest Group, its customers and its counterparties face continued economic and political risks and uncertainties in the UK and global markets, including as a result of high inflation and rising interest rates, supply chain disruption and the Russian invasion of Ukraine.

NatWest 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 NatWest Group. The outlook for the global economy has many uncertainties including: falling economic activity, high inflation, rising interest rates, elevated energy prices and higher cost-of-living, supply chain disruption, changes to monetary and fiscal policy, and the impact of armed conflict (in particular the Russian invasion of Ukraine).

These conditions, including the current cost-of-living crisis, could be worsened by a number of factors including: instability in the global financial system, market volatility and change, fluctuations in the value of the pound sterling, new or extended economic sanctions, the ongoing effects of the COVID-19 pandemic, economic volatility in emerging markets, volatility in commodity prices or concerns regarding sovereign debt or sovereign credit ratings. Economic conditions may also be affected by the changing demographics in the markets that NatWest 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, environmental degradation, biodiversity loss and/or other sustainability risks.

NatWest Group is also exposed to risks arising out of geopolitical events or political developments, such as exchange controls and other measures taken by sovereign governments that may hinder economic or financial activity levels. Unfavourable political, military or diplomatic events, increasing geopolitical tensions leading to armed conflict, protectionist policies or trade barriers, secession movements or the exit of other member states from the EU, changes to monetary and fiscal policy, new and widespread public health crises (including any epidemics or pandemics), state and privately sponsored cyber and terrorist acts or threats, and the responses to each of the above economic, political or other scenarios by various governments and markets, could have a material adverse effect on the business and performance of NatWest Group, including as a result of the indirect impact on regional or global trade and/or NatWest Group's customers and counterparties.

The UK experienced significant political uncertainty in 2022 that may persist into the foreseeable future. This could lead to a loss of confidence in the UK, that could in turn, negatively impact companies operating in the UK. NatWest Group also faces political uncertainty in Scotland as a result of a possible second Scottish independence referendum. 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 may adversely affect the environment in which NatWest Group and its subsidiaries operate and may require further changes to NatWest Group, independently or in conjunction with other mandatory or strategic structural and organisational changes, any of which could adversely affect NatWest Group.

The COVID-19 pandemic prompted many changes that may prove to be permanent shifts in customer behaviour and economic activity, such as changes in spending patterns and significantly more people working in a more flexible manner. These changes may affect asset prices, the economic environment, and NatWest Group's customers' and counterparties' financial performance and needs. In response to the COVID-19 pandemic, central banks, governments, regulators, and legislatures in the UK and elsewhere offered unprecedented levels of support and various schemes to assist businesses and individuals, many of which have since been curtailed or withdrawn. However, risks remain as to whether these loans will be repaid.

The value of NatWest 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 credit markets may make it extremely difficult to value certain of NatWest Group's own and other securities, particularly during periods of market displacement. This could cause a decline in the value of NatWest Group's own and other securities, which may have a material adverse effect on NatWest Group's results of operations in future periods, or inaccurate carrying values for certain financial instruments.

In addition, financial markets are susceptible to severe events evidenced by rapid depreciation in asset values, which may be accompanied by a reduction in asset liquidity. Under these 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 on a large scale, increasing NatWest Group's counterparty risk. NatWest Group's risk management and monitoring processes seek to quantify and mitigate NatWest Group's exposure to more extreme market moves. However, market events have historically been difficult to predict, and NatWest Group, its customers and its counterparties could realise significant losses if extreme market events were to occur.

Any of the above may have a material adverse effect on NatWest Group's business, results of operations and outlook.

Changes in interest rates have significantly affected, and will continue to affect, NatWest Group's business and results.

NatWest Group's performance is affected by changes in interest rates. Benchmark overnight interest rates, such as the UK base rate, increased in 2022 and are expected to continue to rise in the short-term accompanied by quantitative tightening. However, forward rates at 31 December 2022 suggested interest rates may fall again in the medium-term.

Stable interest rates support predictable income flow and less volatility in asset and liability valuations, although persistently low and negative interest rates, such as those experienced during the COVID-19 pandemic, are generally expected to be less favourable for banks.

For NatWest Group, persistently low interest rates may reduce the yield on its lower interest income.

Volatility in interest rates may also result in unexpected outcomes both for interest income and asset and liability valuations which may adversely affect NatWest Group. For example, unexpected movements in spreads between key benchmark rates such as sovereign and swap rates in turn affect liquidity portfolio valuations. Finally, sharp unexpected rises in rates may also have negative impacts on some asset and derivative valuations, for example. Any of the above may have a material adverse effect on NatWest Group's future results, financial condition and/or prospects.

Movements in interest rates also influence and reflect the macro-economic situation more broadly, affecting factors such as business and consumer confidence, property prices, default rates on loans and other indicators that may indirectly affect NatWest Group and also have a material adverse effect on its future results, financial condition and/or prospects.

Fluctuations in currency exchange rates may adversely affect NatWest Group's results and financial condition.

Decisions of central banks (including the Bank of England, the European Central Bank and the US Federal Reserve) and political or market events, which are outside NatWest Group's control, may lead to sharp and sudden fluctuations in currency exchange rates.

Although NatWest Group is principally a UK focused banking group, it is subject to structural foreign exchange risk from capital deployed in NatWest Group's foreign subsidiaries, branches and other strategic equity shareholdings. NatWest Group also relies on issuing securities in non-sterling currencies that assist in meeting NatWest Group's MREL. NatWest Group conducts banking activities in non-sterling currencies (for example, loans, deposits and dealing activity) which affects its revenue and also uses service providers based outside of the United Kingdom for certain services and as a result certain operating results are subject to fluctuations in currency exchange rates.

NatWest Group maintains policies and procedures designed to manage the impact of exposures to fluctuations in currency exchange rates. Nevertheless, changes in currency exchange rates, particularly in the sterling-US dollar and euro-sterling rates, may adversely affect various factors including, the value of assets, liabilities (including the total amount of MREL-eligible instruments), foreign exchange dealing activity, income and expenses, RWAs and hence the reported earnings and financial condition of NatWest Group.

Any of the above may have a material adverse effect on NatWest Group's income from foreign exchange dealing, business, results of operations and outlook.

Continuing uncertainty regarding the effects and extent of the UK's post Brexit divergence from EU laws and regulation, and NatWest Group's post Brexit EU operating model may adversely affect NatWest Group and its operating environment.

The UK ceased to be a member of the EU and the European Economic Area ('EEA') on 31 January 2020 ('Brexit') and the 2020 EU-UK Trade and Cooperation Agreement ('TCA') ended the transition period on 31 December 2020. The TCA was accompanied by a Joint Declaration on financial services which sets out an intention for the EU and UK to cooperate on matters of financial regulation and to agree a Memorandum of Understanding ('MoU'), which remains unsigned. Certain aspects of the services provided by NatWest Group are therefore subject to obtaining local licences or are subject to individual equivalence decisions (temporary or otherwise) by relevant regulators. The EU's equivalence regime does not cover most lending and deposit taking, and determinations in respect of non-EU countries have not, to date, covered the provision of most financial investment services. In addition, equivalence determinations do not guarantee permanent access rights and can be withdrawn with short notice. 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. If these proposals become law all 'banking services' will be licensable activities in each EU member state and member states will not be permitted to offer bilateral permissions to financial institutions outside the EU allowing them to provide 'banking services' in the EU. Uncertainty remains as to whether 'banking services' will also include investment products.

NatWest Group continues to evaluate its post Brexit EU operating model, making adaptations as necessary. NatWest Group also continues to assess where NatWest Group companies can obtain bilateral regulatory permissions to facilitate intragroup transactions and/or to permit business to continue from its UK entities, transferring what cannot be continued to be rendered from the UK to an EEA subsidiary or branch where permitted or commercially reasonable to do so. Where these regulatory permissions are temporary or are withdrawn, a different approach may need to be taken or may result in a change in operating model or some business being ceased. Not all NatWest Group entities have applied for bilateral regulatory permissions and instead conduct EEA business through an EEA licensed subsidiary or branch. Certain permissions are required in order to maintain the ability to clear euro payments. Other permissions, including the ability to have two intermediate EU parent undertakings, may need to be obtained, and structural changes may need to be made, to allow NatWest Group to continue to serve EEA customers from both the ring-fenced and non-ring-fenced banking entities. Any failure to obtain such permissions or make such structural changes in a timely manner, or at all, could adversely affect NatWest Group and the EEA customers it serves. Furthermore, transferring business to an EEA based subsidiary is a complex exercise and involves legal, regulatory and execution risks, and could result in a loss of business and/or customers or higher than anticipated costs. The changes to NatWest Group's operating model have been costly and failure to receive the requested regulatory permissions and/or further changes to its business operations, product offering and customer engagement could result in further costs and/or regulatory sanction.

The long-term effects of Brexit and the uncertainty regarding NatWest Group's EU operating model may adversely affect NatWest 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 if the Financial Services and Markets Bill ('FSM') is enacted into law. The UK government has also proposed legislation to introduce automatic 'sunset' clauses for retained EU law by the end of 2023 (the Retained EU Law (Revocation and Reform) Bill 2022), which if enacted could potentially cause market disruption and require additional resources to manage the legal and regulatory consequences. NatWest 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 negatively affect NatWest Group, including its business, non-UK operations, group structure, compliance costs, intragroup arrangements and capital requirements.

Any of the above could have a material adverse effect on NatWest Group's business, results of operations and outlook.

HM Treasury (or UKGI on its behalf) could exercise a significant degree of influence over NatWest Group and further offers or sales of NatWest Group's shares held by HM Treasury may affect the price of NatWest Group securities.

In its March 2021 Budget, the UK Government announced its intention to carry out a programme of sales of NatWest Group plc ordinary shares with the objective of selling all of its remaining shares in NatWest Group plc by 2026. NatWest Group plc has: (i) carried out directed buybacks of NatWest Group plc ordinary shares from UK Government Investments Limited ('UKGI') in March 2021 and in March 2022, (ii) carried out sales of NatWest Group plc shares by UKGI by accelerated bookbuild in May 2021 and (iii) made purchases under NatWest Group plc's directed and on-market buyback programmes announced in July 2021 and in March 2022. As at 17 January 2023, the UK Government held 44.98% of the ordinary share capital with voting rights of NatWest Group plc. NatWest Group may participate in similar directed or on-market buybacks in the near- and medium-term future. The precise timing and extent of further UKGI's sell-downs is uncertain, which could result in a prolonged period of price volatility for NatWest Group plc's ordinary shares and other securities.

Any offers or sales of a substantial number of ordinary shares in NatWest Group plc by UKGI, market expectations about these sales and any associated directed, on or off market buyback activity by NatWest Group, could affect the prevailing market price for the outstanding ordinary shares of NatWest Group plc which may have a material adverse effect on NatWest Group.

HM Treasury has indicated that it intends to respect the commercial decisions of NatWest Group and that NatWest Group will continue to have its own independent board of directors and management team determining its own strategy. However, for as long as HM Treasury remains NatWest Group plc's largest single shareholder, HM Treasury and UKGI (as manager of HM Treasury's shareholding) could exercise a significant degree of influence over NatWest Group including: the election of directors and appointment of senior management, NatWest Group's capital strategy, dividend policy, remuneration policy or the conduct of NatWest Group's operations. HM Treasury or UKGI's approach depends on government policy, which could change.

The manner in which HM Treasury or UKGI exercises HM Treasury's rights as NatWest Group'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.

Any of the above could have a material adverse effect on NatWest Group's business, results of operations and outlook.

Strategic risk

NatWest Group continues to implement its purpose-led strategy, which carries significant execution and operational risks and may not achieve its stated aims and targeted outcomes.

NatWest Group continues to implement its purpose-led strategy, which is designed to champion potential and to help individuals, families and businesses to thrive. NatWest Group's strategy is intended to reflect the rapidly shifting environment and backdrop of unprecedented disruption in society driven by technology and changing customer expectations, as accelerated by the COVID-19 pandemic. Further, shifting trends include digitalisation, decarbonisation, automation, e-commerce and hybrid working, each of which has resulted in significant market volatility and change. There is also increased investor, employee, stakeholder, regulatory and customer scrutiny regarding how businesses address these changes and related climate change, biodiversity and other sustainability issues, including tackling inequality, working conditions, workplace health, safety and wellbeing, diversity and inclusion, data protection and management, workforce management, human rights and supply chain management.

In recent years, as part of its purpose-led strategy, NatWest Group has refocused its NatWest Markets business, and has also created the Commercial & Institutional business segment. The Commercial & Institutional business segment combined the pre-existing Commercial, NatWest Markets and RBS International businesses to form a single business segment, which focuses on serving Commercial & Institutional customers. The Commercial & Institutional business segment is intended to allow closer operational and strategic alignment to support growth, with increased levels of services being provided between NatWest Group entities, with the potential increased risk of breach of the UK ring-fencing regime requiring effective conflicts of interest policies.

Many factors may adversely impact the successful implementation of NatWest Group's purpose-led strategy, including:

- macroeconomic challenges including rising inflation and interest rates and falling economic activity which may adversely affect economic growth and which could in turn impact certain strategic initiatives and new venture opportunities for NatWest Group;
- an internal culture shift across NatWest Group as to how NatWest Group conducts its business to strive towards NatWest Group's One Bank strategy;
- maintaining effective governance, procedures, systems and controls giving effect to the purpose-led strategy whilst also managing emerging climate, ESG and other sustainability-related risks and opportunities;
- achieving a number of financial, capital and operational targets and expectations, both for the short term and throughout the implementation period;
- cost-controlling measures, which may result in material one-off provisions to lower the NatWest Group cost base, may divert investment from other areas, and may vary considerably from year to year;
- lower customer confidence and confidence from the wider market, which may result in a decrease of customer activity and related income levels;
- changes in the economic, political and regulatory environment in which NatWest Group, its customers and its counterparties operate, regulatory uncertainty and changes, strong market competition and industry disruption and economic volatility; and
- any economic downturn which may adversely affect the strategy as certain initiatives depend on achieving growth in new ventures and opportunities for NatWest Group.

In pursuing its purpose-led strategy, NatWest Group may not be able to successfully: (i) implement some or all aspects of its strategy; (ii) meet any or all of the related targets or expectations of its strategy; or (iii) realise the intended strategic objectives of any other future strategic or growth initiative. The scale and scope of its strategy and the intended changes continue to present material business, operational and regulatory (including compliance with the UK ring-fencing regime), conflicts, legal, execution, IT system, internal culture, conduct and people risks to NatWest Group. Implementing many changes and strategic actions concurrently, including in respect of any growth initiatives, will require application of robust governance and controls frameworks and robust IT systems; there is a risk that NatWest Group may not be successful in these respects. The implementation of the purpose-led strategy and any other strategic initiatives could result in materially higher costs than initially contemplated (including due to material uncertainties and factors outside of NatWest Group's control) and may not be completed as planned, or at all, or could be phased or could progress in a manner other than currently expected. This could lead to additional management actions by NatWest Group.

Each of these risks, and others identified in these Risk Factors, individually or collectively could jeopardise the implementation and delivery of the purpose-led strategy and other strategic initiatives, result in higher than expected costs, impact NatWest Group's products and services offering, its reputation with customers or business model and adversely affect NatWest Group's ability to deliver its strategy and meet its targets and guidance, each of which could have a material adverse effect on NatWest Group's future results, financial condition and/or prospects.

Future acquisitions or divestments by NatWest Group may not be successful, and consolidation or fragmentation of the financial services industry may adversely affect NatWest Group.

The financial services industry is experiencing continued competitive pressure with technological advancement disrupting traditional business models. In order to compete effectively, NatWest Group may decide, as part of its purpose-led strategy, to undertake divestments, restructurings or reorganisations.

Conversely, it may decide to grow its business through acquisitions, joint ventures, investments and/or strategic partnerships as well as other transactions and initiatives to: (i) enhance capabilities that may lead to better productivity or cost efficiencies; (ii) acquire talent; (iii) pursue new products or expand existing products; or (iv) enter new markets or enhance its presence in existing markets.

There are risks that NatWest Group may not fully realise the expected benefits and value from these transactions and initiatives in the time, or to the degree, anticipated, or at all. In particular, NatWest Group may: (i) fail to realise the business rationale for the transaction or initiative, or assumptions underlying the business plans supporting the valuation of a target business may prove inaccurate, for example, regarding synergies and expected commercial demand; (ii) fail to successfully integrate any acquired businesses (including in respect of technologies, existing strategies, products and human capital) or to successfully divest or restructure a business; (iii) fail to retain key employees, customers and suppliers of any acquired or restructured business; (iv) be required or wish to terminate pre-existing contractual relationships, which could prove costly and/or be executed at unfavourable terms and conditions; (v) fail to discover certain contingent or undisclosed liabilities in businesses that it acquires, or its due diligence to discover any such liabilities may be inadequate; and (vi) not obtain necessary regulatory and other approvals or onerous conditions may be attached to such approvals. Accordingly, NatWest Group may not be successful in growing its business through divestments, restructurings, reorganisations or acquisitions, and initiatives and any particular transaction may not succeed, may be limited in scope or scale (including due to NatWest Group's current ownership structure) and may not conclude on the terms contemplated, or at all. Any of the above may have a material adverse effect on NatWest Group's future results, financial condition and/or prospects.

Continued competitive pressure in the financial services industry, including from technology companies, may have a negative impact on NatWest Group's business. If NatWest Group Commercial & Institutional customers merge or are acquired by other entities that are not NatWest Group customers, this may also lead to losses for NatWest Group. Existing larger banks or financial institutions (and those that emerge from mergers and consolidations) may have more bargaining power in negotiations than NatWest Group. Each of these developments may have a material adverse effect NatWest Group.

NatWest Group's phased withdrawal from the Republic of Ireland present various risks.

NatWest Group's phased withdrawal from ROI continues to present significant commercial, operational, reputational, legal and execution risks. In particular, the phased withdrawal from ROI requires transfers of business, assets and liabilities to third parties, and entails many risks, the most significant of which include: (i) anticipated reductions in net income, total lending and RWAs; (ii) potential stranded capital or an inability to return capital from Ulster Bank Ireland DAC to its parent; (iii) the diversion of management resources and attention away from day-to-day management; (iv) the recognition of disposal losses as part of the orderly run-down of certain loan portfolios which may be higher than anticipated; (v) execution risks arising from the significant uncertainties of a phased withdrawal, including the additional IT and operational expense and resource required to mitigate manual and limited customer switching and handling processes of Ulster Bank Ireland DAC, potential counterparties and other banks; (vi) customer action or inaction, or the inability to obtain necessary approvals and/or support from governmental authorities, regulators, trade unions and/or other stakeholders resulting in additional cost, resource and delays; (vii) potential loss of customers, resulting in, for example, retail and commercial deposit outflows and reduced revenues and liquidity; (viii) increased people risk through the potential loss of key colleagues and institutional knowledge and increased challenges of attracting and retaining colleagues; (ix) regulatory risk, including in relation to prudential, conduct and other regulatory requirements; (x) no or limited access to Euro system funding arrangements; and (xi) brand and reputational risks and stakeholder scrutiny about the phased withdrawal from ROI. Any of these risks and uncertainties may cost more, be more complex or harder to mitigate than currently estimated and may have a material adverse effect on NatWest Group's reputation, future results, financial condition and/or prospects or its ability to execute a phased withdrawal from ROI.

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

To improve efficiencies and best serve customers following Brexit, NatWest Group expects that certain of its assets, liabilities, transactions and activities (including NatWest Group's Western European corporate portfolio principally consisting of term funding and revolving credit facilities), may be: (i) transferred from the ring-fenced subgroup of NatWest Group to NWM Group and/or (ii) transferred to the ring-fenced subgroup of NatWest Group from NWM Group, subject to regulatory and customer requirements. The timing, success and quantum of any of these transfers remain uncertain as is the impact of these transactions on its results of operations. As a result, this could have a material adverse effect on NatWest Group's future results, financial condition and/or prospects may be adversely affected.

Financial resilience risk

NatWest Group may not meet the targets it communicates or be in a position to continue to make discretionary capital distributions (including dividends to shareholders).

As part of NatWest Group's strategy, it has set a number of financial, capital and operational targets including in respect of its: CET1 ratio target, MREL targets, return on tangible equity ('ROTE'), funding plans and requirements, employee engagement, diversity and inclusion as well as ESG (including climate and sustainable funding and financing targets) and customer satisfaction targets and discretionary capital distributions (including dividends to shareholders). See also, '*NatWest Group continues to implement its purpose-led strategy, which carries significant execution and operational risks and may not achieve its stated aims and targeted outcomes.*'

NatWest Group's ability to meet its targets, including its CET1 ratio target, and make discretionary capital distributions and to successfully fulfil its strategy is subject to various internal and external factors and risks. These include but are not limited to: UK and global macroeconomic, political, market and regulatory uncertainties, operational risks and risks relating to NatWest Group's business model and strategy (including risks associated with climate, ESG and other sustainability-related issues) and litigation, governmental actions, investigations and regulatory matters. See also, '*NatWest Group, its customers and its counterparties face continued economic and political risks and uncertainties in the UK and global markets, including as a result of high inflation and rising interest rates, supply chain disruption and the Russian invasion of Ukraine*'.

Any failure of NatWest Group to meet its targets, successfully meet its strategy or make discretionary capital distributions could have a material adverse effect on NatWest Group's business, results of operations and outlook.

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

The markets within which NatWest Group operates are highly competitive. NatWest Group expects such competition to continue and intensify in response to various changes. These include: evolving customer behaviour, technological changes (including digital currencies and other instruments, stablecoins and the growth of digital banking, such as from fintech entrants), competitor behaviour, new entrants to the market (including non-traditional financial services providers such as retail or technology conglomerates, who may have competitive advantages in scale, technology and customer engagement), competitive foreign-exchange offerings, industry trends resulting in increased disaggregation or unbundling of financial services or conversely the re-intermediation of traditional banking services, and the impact of regulatory actions and other factors. In particular, developments in the financial sector resulting from new banking, lending and payment solutions offered by rapidly evolving incumbents, challengers and new entrants, notably with respect to payment services and products, and the introduction of disruptive technology may impede NatWest Group's ability to grow or retain its share and impact its revenues and profitability, particularly in its key UK retail and commercial banking segments. Moreover, innovations such as biometrics, artificial intelligence, automation, the cloud, blockchain, cryptocurrencies and quantum computing may rapidly facilitate industry transformation.

These trends have been catalysed by various regulatory and competition policy interventions, including the UK initiative on Open Banking (PSD2), 'Open Finance' and other remedies imposed by the Competition and Markets Authority ('CMA'), which are designed to further promote competition within retail banking. The competition enhancing measures under NatWest Group's independently administered Alternative Remedies Package ('ARP') benefits grant recipients and eligible competitors. The ARP may be more costly than anticipated and may adversely affect customer service for NatWest Group's own customers, its competitive position and reputation. Failure to comply with the terms of the scheme could result in the imposition of additional measures or limitations on NatWest Group's operations, additional supervision by NatWest Group's regulators, and loss of investor confidence, each of which could have a material adverse effect on NatWest Group's business, results of operations and outlook.

Increasingly, many of the products and services offered by NatWest Group are, and will become, more technology intensive, including through digitalisation and the use of artificial intelligence. For example, NatWest Group has invested in a number of fintech ventures, including Mettle, FreeAgent, Tyl, Rapid Cash, Rooster Money and Vodeno. NatWest Group's ability to develop or acquire such digital solutions (which also need to comply with applicable and evolving regulations) has become increasingly important to retaining and growing NatWest Group's customer business in the UK. There can be no certainty that NatWest Group's innovation strategy (which includes investment in its IT capability intended to address the material increase in customer use of online and mobile technology for banking as well as selective acquisitions, which carry associated risks) will be successful or that it will allow NatWest Group to continue to maintain or grow such services in the future. Certain of NatWest Group's current or future competitors may be more successful in implementing innovative technologies for delivering products or services to their customers. NatWest Group may also fail to identify future opportunities or derive benefits from disruptive technologies in the context of rapid technological innovation, changing customer behaviour and growing regulatory demands, resulting in increased competition from traditional banking businesses as well as new providers of financial services, including technology companies with strong brand recognition, that may be able to develop financial services at a lower cost base.

NatWest Group's competitors may also be better able to attract and retain customers and key employees, may have more advanced IT systems, and may have access to lower cost funding and/or be able to attract deposits on more favourable terms than NatWest Group. Although NatWest 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 NatWest Group's focus on cost efficiencies.

This may limit additional investment in areas such as innovation and could affect NatWest 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 NatWest Group's ability to produce underlying high-quality data, failing which its ability to offer innovative products may be compromised.

If NatWest Group is unable to offer competitive, attractive and innovative products that are also profitable and timely, it will lose share, incur losses on some or all of its initiatives and lose opportunities for growth. In this context, NatWest 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 defective, inadequate or is not fully integrated into NatWest Group's current solutions. There can be no certainty that such initiatives will deliver the expected cost savings and investment in automated processes will likely also result in increased short-term costs for NatWest Group.

In addition, the implementation of NatWest Group's purpose-led strategy (including in relation to acquisitions, reorganisations and/or partnerships), delivery on its climate ambition, cost-controlling measures, as well as employee remuneration constraints, may also have an impact on its ability to compete effectively and intensified competition from incumbents, challengers and new entrants could affect NatWest Group's ability to maintain satisfactory returns. Moreover, activist investors have increasingly become engaged and interventionist in recent years, which may pose a threat to NatWest Group's strategic initiatives. Furthermore, continued consolidation or technological or other developments in certain sectors of the financial services industry could result in NatWest Group's remaining competitors gaining greater capital and other resources, including the ability to offer a broader range of products and services and geographic diversity, or the emergence of new competitors, each of which may adversely affect NatWest Group's business, results of operations and outlook. These and other changes in NatWest Group's competitive environment could have a material adverse effect on NatWest Group's business, results of operations and outlook.

NatWest Group has significant exposure to counterparty and borrower risk.

NatWest Group has exposure to many different industries, 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 NatWest Group's businesses. NatWest Group's lending strategy and associated processes/systems may fail to identify, anticipate or quickly react to weaknesses or risks in a particular sector, market or borrower, or NatWest Group's credit risk appetite relative to competitors, or fail to adequately value physical or financial collateral. This may result in increased default rates or a higher loss given default for loans, which may, in turn, impact NatWest Group's profitability. See also, '*Risk and capital management — Credit Risk*'.

The credit quality of NatWest Group's borrowers and other counterparties may be affected by the recent UK and global macroeconomic and political uncertainties and a further deterioration in prevailing economic and market conditions (including a resurgence of the COVID-19 pandemic or other new health crises) and by the legal and regulatory landscape in the UK and countries where NatWest Group is exposed to credit risk. Any further deterioration in these conditions or changes to legal or regulatory landscapes could worsen borrower and counterparty credit quality or impact the enforcement of contractual rights over security, increasing credit risk.

An increase in drawings upon credit facilities may also increase NatWest Group's RWAs. In addition, the level of household indebtedness in the UK remains high. The ability of households to service their debts could be worsened by a period of high unemployment, increasing interest rates or higher inflation, particularly if prolonged. NatWest Group may be affected by volatility in property prices (including as a result of the general UK political or economic climate) given that NatWest Group's mortgage loan and wholesale property loan portfolios as at 31 December 2022, amounted to £235.5 billion, representing 62% of NatWest Group's total customer loan exposure. If property prices were to weaken this could lead to higher impairment charges, particularly if default rates also increase. In addition, NatWest Group's credit risk may be exacerbated if the collateral that it holds cannot be realised as a result of market conditions or regulatory intervention or if it is liquidated at prices not sufficient to recover the net amount after accounting for any IFRS 9 provisions already made.

This is most likely to occur during periods of illiquidity or depressed asset valuations.

NatWest Group is exposed to the financial industry, including sovereign debt securities, banks, 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 could lead to significant liquidity problems and losses or defaults by other financial institutions, since the commercial and financial soundness of many financial institutions 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 NatWest Group. This systemic risk may also adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which NatWest Group interacts on a daily basis. See also, '*NatWest Group may not be able to adequately access sources of liquidity and funding*'.

As a result, adverse changes in borrower and counterparty credit risk may cause accelerated impairment charges under IFRS 9, increased repurchase demands, higher costs, additional write-downs and losses for NatWest Group and an inability to engage in routine funding transactions, which could have a material adverse effect on NatWest Group's business, results of operations and outlook.

NatWest 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, NatWest 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 2022 may not prove to be adequate resulting in incremental ECL provisions for NatWest Group. Each of these risks may have a material adverse effect on NatWest Group's business, results of operations and outlook.

Due to NatWest 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 but not regulated like banks). NatWest Group is required to identify and monitor its exposure to shadow banking entities, implement and maintain an internal framework for the identification, management, control and mitigation of the risks associated with exposure to shadow banking entities, and ensure effective reporting and governance in respect of such exposure. If NatWest 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, this may adversely affect NatWest Group's future results, financial condition and/or prospects.

In line with certain mandated COVID-19 pandemic support schemes, NatWest Group assisted affected customers with a number of initiatives including NatWest Group's participation in BBLS, CBILS and CLBILS products. NatWest Group has sought to manage the risks of fraud and money laundering against the need for the fast and efficient release of funds to customers and businesses. NatWest Group may be exposed to fraud, conduct and litigation risks arising from inappropriate approval (or denial) of BBLS, CBILS or CLBILS or the enforcing or pursuing repayment of BBLS,CBILS and CLBILS (or a failure to exercise forbearance), which may have a material adverse effect on NatWest Group's reputation and results of operations. The implementation of the initiatives and efforts mentioned above may result in litigation, regulatory and government actions and proceedings. These actions may result in judgments, settlements, penalties or fines.

If NatWest Group experiences losses and a reduction in future profitability, this is likely to affect the recoverable value of fixed assets, including goodwill and deferred taxes, which may lead to write-downs and have a material adverse effect on NatWest Group's business, results of operations and outlook.

NatWest Group may not meet the prudential regulatory requirements for regulatory capital and MREL, or manage its capital effectively, which could trigger the execution of certain management actions or recovery options.

NatWest Group is required by regulators in the UK, the EU and other jurisdictions in which it undertakes regulated activities to maintain adequate financial resources.

Adequate capital provides NatWest Group with financial flexibility specifically in its core UK operations in the face of turbulence and uncertainty in the UK and the global economy. It also permits NatWest Group plc to make discretionary capital distributions (including dividends to shareholders).

As at 31 December 2022, NatWest Group plc's CET1 ratio was 14.2% and is targeting a CET1 ratio of 13-14% by the end of 2023. NatWest Group plc's target CET1 ratio is based on a combination of its expected regulatory requirements and internal modelling, including stress scenarios and management's and/or the Prudential Regulation Authority's ('PRA') views on appropriate buffers above minimum operating levels.

NatWest Group plc's current capital strategy is based on the expected accumulation of additional capital through the accrual of profits over time, planned capital actions (including issuances, redemptions, and discretionary capital distributions), RWA growth in the form of regulatory uplifts and lending growth and other capital management initiatives which focus on improving capital efficiency and ensuring NatWest Group meets its medium-to-long term targets. NatWest Group intends to make capital distributions to its equity investors of amounts surplus to its publicly stated CET1 target, subject to macroeconomic conditions, via a combination of dividends and buybacks. In making distribution decisions, consideration is given to previously guided ordinary dividend pay-out ratios, an intention to minimise the government's stake in the Group, and maximising shareholder value.

A number of factors may impact NatWest Group plc's ability to maintain its current CET1 ratio target and achieve its capital strategy. These include:

- a depletion of its capital resources through increased costs or liabilities or reduced profits;
- an increase in the quantum of RWAs/Leverage Exposure in excess of that expected, including due to regulatory changes, or a failure in internal controls or procedures to accurately measure and report RWAs/ Leverage Exposure;

- changes in prudential regulatory requirements including NatWest Group plc's Total Capital Requirement/ Leverage Requirement set by the PRA, including Pillar 2 requirements, as applicable, and regulatory buffers as well as any applicable scalars; and
- reduced dividends from NatWest Group's subsidiaries because of changes in their financial performance and/or the extent to which local capital requirements exceed NatWest Group plc's target ratio; and limitations on the use of double leverage (i.e., NatWest Group plc's use of debt to invest in the equity of its subsidiaries, as a result of the Bank of England's and/or NatWest Group's evolving views on distribution of capital within groups).

A shortage of capital could in turn affect NatWest Group plc's capital ratio, and/or its ability to make capital distributions and in turn NatWest Group may not remain a viable, competitive or profitable banking business.

A minimum level of capital is required to be met by NatWest Group plc for it to be entitled to make certain discretionary payments, and institutions which fail to meet the combined buffer requirement are subject to restricted discretionary payments. The resulting restrictions are scaled according to the extent of the breach of the combined buffer requirement and calculated as a percentage of the profits of the institution since the last distribution of profits or discretionary payment which gives rise to a maximum distributable amount (MDA) (if any) that the financial institution can distribute through discretionary payments. Any breach of the combined buffer requirement may necessitate for NatWest Group plc reducing or ceasing discretionary payments (including payments of dividends to shareholders) to the extent of the breach.

NatWest Group plc is required to maintain a set quantum of MREL set as the higher of its RWAs or leverage requirement. The Bank of England has identified single point-of-entry at NatWest Group plc, as the preferred resolution strategy for NatWest Group. As a result, NatWest Group plc is the only entity within NatWest Group that can externally issue securities that count towards its MREL, the proceeds of which can then be downstreamed to meet the internal MREL of its operating entities and intermediate holding companies.

If NatWest Group plc is unable to raise the requisite amount of regulatory capital or MREL, downstream the proceeds of MREL to subsidiaries as required, or to otherwise meet its regulatory capital, MREL and leverage requirements, it may be exposed to increased regulatory supervision or sanctions, loss of investor confidence, constrained or more expensive funding and be unable to make dividend payments on its ordinary shares or maintain discretionary payments on capital instruments.

If, under a stress scenario, the level of regulatory capital or MREL falls outside of risk appetite, there are a range of recovery management actions (focused on risk reduction and mitigation) that NatWest Group could take to manage its capital levels, but any such actions may not be sufficient to restore adequate capital levels. Under the EU Bank Recovery and Resolution Directives I and II ('BRRD'), as implemented in the UK, NatWest Group must maintain a recovery plan acceptable to its regulator, such that a breach of NatWest Group's applicable capital or leverage requirements may trigger the application of NatWest Group's recovery plan to remediate a deficient capital position. NatWest Group's regulator may request that NatWest Group carry out certain capital management actions or, if NatWest Group plc's CET1 ratio falls below 7%, certain regulatory capital instruments issued by NatWest Group plc will be written-down or converted into equity and there may be an issue of additional equity by NatWest Group plc, which could result in the reduction in value of the holdings of NatWest Group plc's existing shareholders. The success of such issuances will also be dependent on favourable market conditions and NatWest Group may not be able to raise the amount of capital required on acceptable terms or at all. Separately, NatWest Group may address a shortage of capital by taking action to reduce leverage exposure and/or RWAs via asset or business disposals. These actions may, in turn, affect: NatWest Group's product offering, credit ratings, ability to operate its businesses, pursue its current strategies and pursue strategic opportunities. Any of the above may have a material adverse effect on NatWest Group's business, results of operations and outlook. See also, '*NatWest Group may become subject to the application of UK statutory stabilisation or resolution powers which may result in, for example, the cancellation, transfer or dilution of ordinary shares, or the write-down or conversion of certain other of NatWest Group's securities.*'

NatWest Group may not be able to adequately access sources of liquidity and funding.

NatWest Group is required to access sources of liquidity and funding through retail and wholesale deposits, as well as through the debt capital markets. As at 31 December 2022, NatWest Group plc subsidiaries held £470.7 billion in deposits. The level of deposits may fluctuate due to factors outside NatWest Group's control, such as a loss of customers and/or investor confidence (including in individual NatWest Group entities), changes in interest rates, government support, increasing competitive pressures for retail and corporate customer deposits or the reduction or cessation of deposits by wholesale depositors, which could result in a significant outflow of deposits within a short period of time. An inability to grow or any material decrease in NatWest Group's deposits could, particularly if accompanied by one of the other factors described above, may adversely affect NatWest Group's ability to satisfy its liquidity or funding needs. In turn, this could require NatWest Group to adapt its funding plans or change its operations.

Current economic uncertainties and any significant market volatility could affect NatWest Group's ability to access sources of liquidity and funding, which may result in higher funding costs and failure to comply with regulatory capital, funding and leverage requirements. As a result, NatWest Group and its subsidiaries could be required to adapt their funding plans. This could exacerbate funding and liquidity risk, which may have a material adverse effect on NatWest Group's business, results of operations and outlook.

As at 31 December 2022, NatWest Group plc's liquidity coverage ratio was 145%. If its liquidity position were to come under stress, and if NatWest Group plc were unable to raise funds through deposits or in the debt capital markets on acceptable terms or at all, its liquidity position could be adversely affected and it might be unable to meet deposit withdrawals on demand or at their contractual maturity, to repay borrowings as they mature, to meet its obligations under committed financing facilities, to comply with regulatory funding requirements, to undertake certain capital and/or debt management activities, or to fund new loans, investments and businesses. NatWest Group may need to liquidate assets to meet its liabilities, including disposals of assets not previously identified for disposal to reduce its funding commitments or trigger the execution of certain management actions or recovery options. In a time of reduced liquidity, NatWest Group may be unable to sell some of its assets, or may need to sell assets at depressed prices, which in either case may have a material adverse effect on NatWest Group's future results, financial condition and/or prospects.

Any reduction in the credit rating and/or outlooks assigned to NatWest Group plc, any of its subsidiaries or any of their respective debt securities could adversely affect the availability of funding for NatWest Group, reduce NatWest Group's liquidity position and increase the cost of funding.

Rating agencies regularly review NatWest Group plc and other NatWest Group entity credit ratings and outlooks. In October 2022, Moody's changed the outlook from stable to negative for NatWest Bank Plc's issuer rating. NatWest Group entity credit ratings and outlooks could be negatively affected (directly or indirectly) by a number of factors that can change over time, including: credit rating agencies' assessment of NatWest Group's strategy and management's capability; its financial condition including in respect of profitability, asset quality, capital, funding and liquidity; the level of political support for the industries and regions in which NatWest Group operates; the implementation of structural reform; the legal and regulatory frameworks applicable to NatWest 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 and economic conditions in NatWest Group's key markets (including higher 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 (currently on negative outlook by Moody's, S&P and Fitch) 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 could have a negative impact on NatWest Group's reputation and on investors' risk appetite and customers' willingness to deal with NatWest Group.*'

Any reductions in the credit ratings of NatWest Group plc or of certain other NatWest Group entities, including, in particular, downgrades below investment grade, or a deterioration in the capital markets' perception of NatWest Group's financial resilience could significantly affect NatWest 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 NatWest Group's (and, in particular, NatWest Group plc's) cost of funding and its access to capital markets and could limit the range of counterparties willing to enter into transactions with NatWest Group (and, in particular, with NatWest Group plc). This may in turn adversely affect NatWest Group's competitive position and threaten its prospects in the short to medium-term.

Any of the above may have a material adverse effect on NatWest Group's business, results of operations and outlook.

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

NatWest Group is subject to annual stress tests by its regulator in the UK. 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 will need to take action to strengthen its capital position.

Failure by NatWest Group to meet the quantitative and qualitative requirements of the stress tests as set forth by its UK regulator may result in: NatWest Group's regulators requiring NatWest Group to generate additional capital, reputational damage, increased supervision and/or regulatory sanctions, restrictions on capital distributions and loss of investor confidence, each of which may have a material adverse effect on its future results, financial condition and/or prospects.

NatWest 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 NatWest Group's business, strategy and capital requirements, NatWest 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). Uncertainties relating to the COVID-19 pandemic has made reliance on analytical models and planning and forecasting for NatWest Group more complex, and may result in uncertainty impacting the risk profile of NatWest Group and/or that of the wider banking industry. In addition, NatWest 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 fraud risk management (collectively, 'financial crime')). NatWest Group's models, and the parameters and assumptions on which they are based, are periodically reviewed.

As models analyse scenarios based on assumed inputs and a conceptual approach, model outputs therefore remain uncertain. Failure of models (including due to errors in model design) or new data inputs (including non-representative data sets), for example, to accurately reflect changes in the micro and macroeconomic environment in which NatWest Group operates (for example to account for high inflation), to capture risks and exposures at the subsidiary level and to update for changes to NatWest Group's current business model or operations, or for findings of deficiencies by NatWest Group's regulators (including as part of NatWest Group's mandated stress testing), may render some business lines uneconomic, result in increased capital requirements, may require management action or may subject NatWest Group to regulatory sanction. NatWest Group may also face adverse consequences as a result of actions based on models that are poorly developed, implemented or used, models that are based on inaccurate or compromised data or as a result of the modelled outcome being misunderstood, or by such information being used for purposes for which it was not designed. Risks arising from the use of models could have a material adverse effect on NatWest Group's business, results of operations and outlook, minimum capital requirements and reputation.

NatWest 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 are likely to 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 NatWest 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 NatWest 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 2022, these include loan impairments, fair value, deferred tax and conduct and litigation provisions. These are set out in '*Critical accounting policies and sources of estimation uncertainty*'. Changes resulting from such new accounting standards and interpretations could have a material adverse effect on NatWest Group's business, results of operations and outlook.

Changes in accounting standards may materially impact NatWest Group's financial results.

NatWest Group prepares its consolidated financial statements in conformity with the requirements of the Companies Act 2006 and in accordance with IFRS as issued by the International Accounting Standards Board. Changes in accounting standards or guidance by accounting bodies or in the timing of their implementation, whether immediate or foreseeable, could result in NatWest Group having to recognise additional liabilities on its balance sheet, or in further write-downs or impairments to its assets and could also have a material adverse effect on the financial results, condition and prospects of NatWest Group. From time to time, the International Accounting Standards Board may issue new accounting standards or interpretations that could materially impact how NatWest Group calculates, reports and discloses its financial results and financial condition, and which may affect NatWest 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 NatWest Group are discussed in '*Future accounting developments*'.

The value or effectiveness of any credit protection that NatWest Group has purchased depends on the value of the underlying assets and the financial condition of the insurers and counterparties.

NatWest Group has some remaining credit exposure arising from over-the-counter derivative contracts, mainly credit default swaps (CDSs), and other credit derivatives, each of which are carried at fair value. The fair value of these CDSs, as well as NatWest Group's exposure to the risk of default by the underlying counterparties, depends on the valuation and the perceived credit risk of the instrument against which protection has been bought. Many market counterparties have been adversely affected by their exposure to residential mortgage-linked and corporate credit products, whether synthetic or otherwise, and their actual and perceived creditworthiness may deteriorate rapidly. If the financial condition of these counterparties or their actual or perceived creditworthiness deteriorates, NatWest Group may record further credit valuation adjustments on the credit protection bought from these counterparties under the CDSs. NatWest Group also recognises any fluctuations in the fair value of other credit derivatives. Any such adjustments or fair value changes may have a material adverse effect on NatWest Group's business, future results, financial condition and/or prospects.

NatWest Group is subject to Bank of England and PRA oversight in respect of resolution, and NatWest Group could be adversely affected should the Bank of England in the future deem NatWest Group's preparations to be inadequate.

NatWest Group is subject to regulatory oversight by the Bank of England and the PRA and is required (under the PRA rulebook) to carry out an assessment of its preparations for resolution, submit a report of the assessment to the PRA, and disclose a summary of this report. NatWest Group has dedicated significant resources towards the preparation of NatWest Group for a potential resolution scenario. In June 2022 the Bank of England communicated its assessment of NatWest Group's preparations and did not identify any shortcomings, deficiencies or substantive impediments although two areas were highlighted as requiring further enhancements. NatWest Group could be materially adversely affected should future Bank of England assessments deem NatWest Group's preparations to be inadequate.

If future Bank of England assessments identify a significant gap in NatWest Group's ability to achieve the resolvability outcomes or reveals that NatWest Group is not adequately prepared to be resolved, or did not have adequate plans in place to meet resolvability requirements, NatWest Group may be required to take action to enhance its preparations to be resolvable, resulting in additional costs and the dedication of additional resources. Such a scenario may have an impact on NatWest Group as, depending on the Bank of England's assessment, potential action may include, but is not limited to, restrictions on NatWest Group's maximum individual and aggregate exposures, a requirement to dispose of specified assets, a requirement to change legal or operational structure, a requirement to cease carrying out certain activities and/or maintaining a specified amount of MREL. This may also impact NatWest Group's strategic plans and may have a material adverse effect on NatWest Group's business, results of operations and outlook. This may also result in reputational damage and/or lead to a loss of investor confidence.

NatWest Group may become subject to the application of UK statutory stabilisation or resolution powers which may result in, for example, the cancellation, transfer or dilution of ordinary shares, or the write-down or conversion of certain other of NatWest Group's securities.

HM Treasury, the Bank of England and the PRA and FCA (together, the 'Authorities') are granted substantial powers to resolve and stabilise UK-incorporated financial institutions. Five stabilisation options exist: (i) transfer of all of the business of a relevant entity or the shares of the relevant entity to a private sector purchaser; (ii) transfer of all or part of the business of the relevant entity to a 'bridge bank' wholly-owned by the Bank of England; (iii) transfer of part of the assets, rights or liabilities of the relevant entity to one or more asset management vehicles for management of the transferor's assets, rights or liabilities; (iv) the write-down, conversion, transfer, modification, or suspension of the relevant entity's equity, capital instruments and liabilities; and (v) temporary public ownership of the relevant entity. These tools may be applied to NatWest Group plc as the parent company or an affiliate where certain conditions are met (such as, whether the firm is failing or likely to fail, or whether it is reasonably likely that action will be taken (outside of resolution) that will result in the firm no longer failing or being likely to fail). Moreover, there are modified insolvency and administration procedures for relevant entities, and the Authorities have the power to modify or override certain contractual arrangements in certain circumstances and amend the law for the purpose of enabling their powers to be used effectively and may promulgate provisions with retrospective applicability.

Under the UK Banking Act, the Authorities are generally required to have regard to specified objectives in exercising the powers provided for by the Banking Act. One of the objectives (which is required to be balanced as appropriate with the other specified objectives) refers to the protection and enhancement of the stability of the financial system of the UK. Moreover, the 'no creditor worse off' safeguard contained in the Banking Act may not apply in relation to an application of the separate write-down and conversion power relating to capital instruments under the Banking Act, in circumstances where a stabilisation power is not also used. 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, which may depend on factors outside of NatWest Group's control. Moreover, the Banking Act provisions remain largely untested in practice, particularly in respect of resolutions of large financial institutions and groups.

If NatWest Group is at or is approaching the point of non-viability such that regulatory intervention is required, any exercise of the resolution regime powers by the Authorities may materially adversely affect holders of NatWest Group plc's ordinary shares or other NatWest Group securities. This may result in various actions being undertaken in relation to NatWest Group and any securities of NatWest Group, including cancellation, transfer, dilution, write-down or conversion (as applicable). There may also be a corresponding material adverse effect on the market price of such ordinary shares and other NatWest Group securities.

Climate and sustainability-related risks

NatWest Group and its customers, suppliers and counterparties face significant climate and sustainability-related risks, which may adversely affect NatWest Group.

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, exacerbating already existing financial vulnerabilities and may disrupt the proper functioning of financial markets and institutions, including NatWest Group.

Financial and non-financial risks from climate change and sustainability-related risks can arise through physical and transition risks. In addition, physical and transition risks can trigger further losses, stemming directly or indirectly from legal claims, litigation and conduct liability (referred to as 'liability risk'). See also, '*NatWest Group may be subject to potential climate, environmental, human rights and other sustainability-related litigation, enforcement proceedings, investigations and conduct risk.*'

There are significant uncertainties as to the location, extent and timing of the manifestation of the physical risks of climate change, such as more severe and frequent extreme weather events (storms, flooding, subsidence, heat waves, droughts and wildfires), rising sea levels, nature and biodiversity loss, declining food yields, destruction of critical infrastructure, supply chain disruption and resource scarcity. Damage to NatWest Group customers', suppliers' and counterparties' properties and operations could disrupt business, impair asset values and negatively impact the creditworthiness of customers leading to increased default rates, delinquencies, write-offs and impairment charges in NatWest Group's portfolios. In addition, NatWest Group premises and operations, or those of its critical outsourced functions may experience damage or disruption leading to increased costs and adversely affect NatWest Group's reputation, future results, financial condition and/or prospects.

In October 2021, the UK Government published its Net Zero Strategy which sets out how the UK will deliver on its commitment to reach net-zero emissions by 2050 (defined as the point at which greenhouse gas emissions from sources are equal to removals by sinks as set out in Article 4 of the 2015 Paris Agreement). An independent review of the government's approach to delivering its net zero target to ensure it is pro-business and pro-growth was published in January 2023. The timing, content and implementation of the specific policies and proposals remain uncertain and are subject to continuous changes and developments. The transition to a net-zero economy across all sectors of the economy and markets in which NatWest Group operates will be required to meet the goals of the UN Framework Convention on Climate Change (1994), the 2015 Paris Agreement, the UK's Net Zero Strategy and the European Green Deal initiatives. The impacts of the extensive social, commercial, technological, policy and regulatory changes required to achieve 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. Some sectors such as property, energy (including the oil and gas industry), mobility (including land transport, aviation, and shipping industries and the related manufacturing and infrastructure industry) and food (including the agriculture industry) are expected to be particularly impacted. The timing and pace of the transition to a net-zero economy 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. There is also growing attention on the need for a *'just transition'* and *'energy justice'* – in recognition that the transition to net zero should not disproportionally affect the most disadvantaged members of society.

In addition, NatWest Group and its customers, suppliers and counterparties may face economic, financial and non-financial risks arising from broader sustainability issues such as: (i) risks relating to degradation of the environment, such as air, water and land pollution, water stress, nature and biodiversity loss and deforestation which may include for instance loss and/or decline of the state of nature (including the state of biodiversity); (ii) social matter-related risks (including violent conflicts, geopolitical implications, impacts on indigenous people, migration, human rights, diversity, equality and inclusion, the living wage, fair taxation and value chains); and (iii) governance-related risks (including board diversity, ethics, executive compensation and management structure).

Financial institutions, including NatWest Group, are directly and indirectly exposed to multiple types of environmental risks (including nature and biodiversity related risks) through their activities, including through the risk of default by clients.

In addition to safeguards and interventions that focus on reducing negative impacts on the environment (including nature and biodiversity), there is also a growing need to implement solutions that focus on increasing positive impacts on environment (including nature and biodiversity) through nature-based solutions. In 2021, NatWest Group classified *'Biodiversity and Nature Loss'* as an emerging risk for NatWest Group within its Risk Management Framework.

The Taskforce on Nature-Related Financial Disclosures (TNFD) is a global, market-led initiative with the mission to develop and deliver a risk management and disclosure framework for organisations to report and act on evolving nature-related risks and opportunities, with the ultimate aim of supporting a shift in global financial flows away from nature-negative outcomes and toward nature-positive outcomes. NatWest Group is a member of the Informal Working Group 2020 of TNFD and is a Forum Member since 2021.

Measuring the environmental related financial impacts (including impacts on nature and biodiversity related financial impacts) as a result of funding and financing activities as well as reporting on these is an evolving and complex area for the financial services industry which requires collaborative approaches with partners, stakeholders, peers and public sector bodies to help measure and mitigate the negative impacts of the activities which NatWest Group finances on the environment (including nature and biodiversity), as well as supporting the growing sector of nature-based solutions and habitat restoration and biodiversity markets. NatWest Group is in the early stages of developing its approach to assess, manage and mitigate environmental risks and by using emerging industry guidance such as the TNFD beta framework, NatWest Group is seeking to further its understanding of how NatWest Group's business activities impact nature, the dependencies NatWest Group and its customers have on nature, and the risks and opportunities nature can generate.

There is also increased scrutiny from NatWest Group's employees, investors, customers, counterparties (including its suppliers), communities, regulators and other stakeholders regarding how businesses address social issues, including tackling inequality, working conditions, workplace health, safety and wellbeing, diversity and inclusion, data protection and management, workforce management, human rights and supply chain management which may impact NatWest Group's employees, suppliers, customers, and their business activities or the communities in which they operate.

These climate and sustainability-related risks may:

- adversely affect economic activity, asset pricing and valuations of financial instruments and, in turn, the wider financial system;
- impact economic activities directly (for example through lower corporate profitability or the devaluation of assets) or indirectly (for example through macro-financial changes);
- also 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 further losses stemming directly or indirectly from legal claims (liability risks) and reputational damage as a result of the public, customers, counterparties, suppliers and/or investors associating NatWest Group or its customers with adverse climate and sustainability-related issues;
- intersect with and add further complexity and challenge to achieving NatWest Group's purpose-led strategy including climate ambitions and targets;
- be drivers of several different risk categories simultaneously and may exacerbate existing risks, 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), pension risk and conduct risk; and
- if combined, may have a greater material adverse effect on NatWest Group's reputation, future results, financial condition and/or prospects.

If NatWest Group fails in a timely manner to identify and address climate and sustainability-related risks and opportunities and changing regulatory and market expectations, or to appropriately identify, measure, manage and mitigate climate and sustainability-related physical, transition and liability risks and opportunities that NatWest Group, its customers, counterparties and suppliers face, this may have a material adverse effect on NatWest Group's reputation, future results, financial condition and/or prospects.

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

In February 2020, NatWest Group announced its ambition to become a leading bank in the UK helping to address the climate challenge. As part of the implementation of its climate ambitions, 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 strategy to address 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 by 2050 across its financed emissions, assets under management and operational value chain.

Furthermore, as part of its efforts to support the transition to a net-zero economy, NatWest Group has announced its plans to (i) stop lending and underwriting to companies with more than 15% of activities related to thermal and lignite coal, unless they had a Credible Transition Plan in line with the 2015 Paris Agreement in place by end of 2021;phase out of thermal and lignite 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; (ii) to stop lending and underwriting to major oil and gas producers unless they had a Credible Transition Plan aligned with the 2015 Paris Agreement in place by the end of 2021; (iii) from February 2023 stop providing reserve based lending specifically for the purpose of financing oil and gas exploration, extraction and production for new customers, and, after the 31 December 2025 not to renew, refinance or extend existing reserve- based lending specifically for the purpose of financing oil and gas exploration, extraction and production; and (iv) stop providing reserve-based lending and borrowing base financing to upstream Oil and Gas companies specifically for the purpose of financing upstream assets located in Arctic or Antarctic Waters.

In December 2022, NatWest Group published its science based targets validated by Science Based Target Initiative (SBTi) for its own operational footprint and for 79% of its loans and investments (debt securities and equity shares) on its 2019 balance sheet, at sector level.

NatWest Group has also announced and in the future it may also announce other climate ambitions and targets which support its overarching strategy to address climate change.

Making the changes necessary to achieve NatWest Group's strategy on addressing climate change, including its climate ambitions and targets and executing its transition plan, may adversely affect NatWest Group's business and operations and will require significant reductions to its financed emissions and to its exposure to customers that do not align with a transition to net zero or do not have a credible transition plan in place. 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. It is anticipated that achieving these reductions, together with the active management of climate and sustainability-related risks and other regulatory, policy and market changes, is likely to necessitate material and accelerated changes to NatWest Group's business, operating model, its existing exposures and the products and services NatWest Group provides to its customers (potentially on accelerated timescales) which may adversely affect NatWest Group's ability to achieve its financial targets and generate sustainable returns.

NatWest Group also needs to ensure that its strategy and business model adapt to changing national and international standards, industry and scientific practices, regulatory requirements and market expectations regarding climate change, which remain under continuous development and are subject to different interpretations. There can be no assurance that these standards, practices, requirements and expectations will not be interpreted differently than what was NatWest Group's understanding when defining its climate-related ambitions and targets or change in a manner that substantially increases the cost or effort for NatWest Group to achieve such ambitions and targets. In addition, NatWest Group's ambitions and targets may prove to be considerably more difficult or even impossible to achieve under such changing circumstances. This may be exacerbated if NatWest Group chooses or is required to accelerate its climate-related ambitions or targets as a result of (among other things) UK or international regulatory developments or stakeholder expectations.

NatWest Group's ability to achieve its strategy to address climate change, including achieving its climate ambitions and targets, will depend to a large extent on many factors and uncertainties beyond NatWest Group's control.

These include the extent and pace of climate change, including the timing and manifestation of physical and transition risks, the macroeconomic environment, the timely implementation and integration of adequate government policies, the effectiveness of actions of governments, legislators, regulators, businesses, investors, customers and other stakeholders to mitigate the impact of climate and sustainability-related risks, changes in customer behaviour and demand, changes in the available technology for mitigation, the roll-out of low carbon infrastructure and the availability of accurate, verifiable, reliable, consistent and comparable data. See also, '*There are significant challenges in accessing reliable, verifiable and comparable climate and other sustainability-related data due to availability, quality and other limitations, which contribute to the substantial uncertainties in accurately modelling and reporting on climate and sustainability information, as well as making appropriate important internal decisions*'.

These external factors and other uncertainties will make it challenging for NatWest Group to meet its climate ambitions and targets and there is a significant risk that all or some of them will not be achieved.

Any delay or failure in setting, making progress against or meeting NatWest Group's climate-related ambitions and targets may have a material adverse effect on NatWest Group, its reputation, future results, financial condition and/or prospects and may increase the climate and sustainability-related risks NatWest Group faces.

There are significant limitations related to accessing reliable, verifiable and comparable climate and other sustainability-related data, including as a result of lack of standardisation, consistency and completeness which, alongside other factors, 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, consistent and comparable climate and sustainability-related data from counterparties or customers. Data may not be generally available or, if available, may not be accurate, verifiable, auditable, reliable, consistent, or comparable.

Any failure of NatWest Group to incorporate climate and/or sustainability-related factors into its counterparty and customer data sourcing and accompanying analytics, or to collect or develop accurate, verifiable, auditable, reliable, consistent and comparable counterparty and customer data, may have a material adverse effect on NatWest Group's ability to prepare meaningful reporting of climate and sustainability-related risks and opportunities, and it may adversely affect NatWest Group's regulatory compliance, reputation, business and its competitive position.

In the absence of other sources, reporting of financed emissions by financial institutions, including NatWest 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. NatWest Group's climate and sustainability-related disclosures use a greater number and level of assumptions and estimates than many of its financial disclosures. These assumptions and estimates are highly likely to change 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 industry and other assumptions that may not be accurate for a given counterparty or customer. There may also be data gaps that are filled using proxy data, such as sectoral averages, again developed in different ways. As a result, NatWest Group's climate and sustainability-related disclosures may be amended, updated or restated in the future as the quality and completeness of NatWest Group's data and methodologies continue to improve. These data quality challenges, gaps and limitations could have a material impact on NatWest Group's ability to make effective business decisions about climate risks and opportunities, including risk management decisions, to comply with disclosure requirements and to monitor and report progress in meeting ambitions and targets, which could have a material adverse effect on NatWest Group's business, results of operations and outlook.

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

As a result, it is very difficult to predict and model the impact of climate-related risks into precise financial and economic outcomes and impacts. Climate-related risks present significant methodological challenges due to their forward-looking nature, the lack and/or quality of historical testing capabilities, lack of standardisation and incompleteness of emissions and other climate and sub-sector related data and the immature nature of risk measurement and modelling methodologies. 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 NatWest Group would like to happen, rather they explore the possible implications of different judgments 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 banks such that NatWest Group 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 evolve rapidly in the coming years;
- the number of variables and 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 be continually evolving 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 emissions.

Accordingly, these risks and uncertainties coupled with significantly longer timeframes make the outputs of climate-related risk modelling, 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 environmental risks (including nature and biodiversity-related risks) and the monitoring and mitigation of these risks in the economy and financial system.

Capabilities within NatWest Group to appropriately assess, model, report and manage climate and sustainability-related risks and impacts and the suitability of the assumptions required to model and manage climate and sustainability-related risks appropriately are developing. The development of NatWest Group's capabilities to assess, model, report and manage the impacts of climate change and broader environmental risk (including nature and biodiversity-related risks) is in its early stages. Even when those capabilities are 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 judgments and data quality gaps and limitations may lead to inadequate risk management information and frameworks, or ineffective business adaptation or mitigation strategies, which may have a material adverse effect on NatWest Group's regulatory compliance, reputation, future results, financial condition and/or prospects.

A failure to implement effective climate change resilient governance, procedures, systems and controls in compliance with legal and regulatory expectations to manage climate and sustainability-related risks and opportunities could adversely affect NatWest Group's ability to manage those risks.

The prudential regulation of climate-related risks is an important driver in how NatWest Group develops its risk appetite for financing activities or engaging with counterparties. Legislative and regulatory authorities are publishing expectations as to how banks should prudently manage and transparently disclose climate-related and environmental risks under prudential rules.

In April 2019, the PRA published a supervisory statement ('SS 3/19') with particular focus on the management of financial risks from climate change with respect to governance, risk management, scenario analysis and disclosures. In response to the PRA's SS 3/19, following the submission of initial plans in October 2019, on 8 October 2020 NatWest Group provided the PRA with an update to its original plan, noting that the COVID-19 pandemic had disrupted some elements of its original plan and, as a result, the updated plan would require additional operating cycles reaching into 2022 and beyond to prove embedding. Throughout 2022, NatWest Group provided the PRA with updates on how it had addressed the commitments made in its October 2020 plan, noting the delivery of a first generation, largely qualitative in nature, approach to the supervisory requirements. In 2022, the PRA has also started actively supervising firms against their supervisory expectations and it issued another 'Dear CEO letter' providing a summary of capabilities which the PRA would expect firms to be able to demonstrate, setting out thematic observations on firms' levels of embeddedness, and providing examples of effective practices identified.

In June 2021, the Bank of England launched its 2021 Biennial Exploratory Scenario ('2021 CBES') to stress test the resilience of the current business models of the largest banks, insurers and the financial system to the physical and transition risks from climate change under three climate scenarios. NatWest Group delivered its first 2021 CBES submission to the PRA in October 2021 and its submission to the second phase of the 2021 CBES exercise in the first quarter of 2022. In May 2022, the PRA published the results of the 2021 CBES which has shown that UK banks, including NatWest Group, need to do more to understand and manage their exposure to climate risks and that the lack of available data on corporates' current emissions and future transition plans is a collective issue affecting all participating firms.

In July 2022, the participating banks in the 2021 CBES exercise were invited to discuss methodologies and challenges with regards to climate risk scenario analysis.

In October 2022, the Bank of England and the PRA held a conference to facilitate discussion on the complex issues associated with adjusting the capital framework to take account of climate-related financial risks with the aim of providing more guidance on its approach to climate and capital by the end of 2022. The Bank of England does not think capital frameworks should be used to address the causes of climate change. However, as set out in the PRA's Climate Change Adaptation Report 2021, and as with any other risk, it does think the capital framework could be a useful tool within the broader regulatory frameworks to ensure that PRA-regulated firms are resilient to climate risks.

Any failure of NatWest Group to fully and timely embed climate-related risks into its risk management practices and framework to appropriately identify, measure, manage and mitigate the various climate-related physical and transition risks and apply the appropriate product governance in line with applicable legal and regulatory requirements and expectations, may adversely affect NatWest Group's regulatory compliance, prudential capital requirements, liquidity position, reputation, future results, financial condition and/or prospects.

Climate and sustainability-related disclosures are a rapidly evolving area and increasingly expose NatWest Group to risk in the face of legal and regulatory expectations, regulatory enforcement and class action risk. NatWest Group and its subsidiaries currently are and in the future will be subject to increasing entity-wide climate-related and other non-financial disclosure requirements, including pursuant to the recommendations of the Task Force on Climate-related Financial Disclosure ('TCFD'), the proposed SEC Climate Disclosure Rules and ISSB sustainability reporting requirements and under other regimes. As from February 2022, NatWest Group is required to provide enhanced climate-related disclosures consistent with the TCFD recommendations to comply with the FCA Policy Statement on 'Proposals to enhance climate-related disclosures by listed issuers and clarification of existing disclosure obligations' (PS 20/17) which introduced new Listing Rules that require commercial companies with a UK premium listing – such as NatWest Group - to make climate-related disclosures, consistent with TCFD, on a 'comply or explain' basis. In addition, as of the accounting period beginning on or after 1 January 2022, NatWest Group is also in scope of the FCA Policy Statement 'Enhancing climate-related disclosures by standard listed companies' (PS 21/23) which confirmed its final policy position set forth in PS 20/17, extended the scope of issuers that are subject to the new Listing Rules and added guidance provisions on transition plan disclosure (for issuers in scope of both the PS 20/17 and the new PS 21/23 rules). As of 5 April 2022, NatWest Group is also required to prepare mandatory climate-related financial disclosures pursuant to The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022.

Furthermore, in October 2022, the FCA published a Consultation Paper on 'Sustainability Disclosure Requirements (SDR) and investment labels' (CP 22/20) which proposes that the FCA will require all regulated firms to ensure that from June 2023 the naming and marketing of financial products and services in the UK is clear, fair and not misleading, and consistent with the sustainability profile of the products or services, i.e. proportionate and not exaggerated.

Misrepresenting or over-emphasising the extent to which an investment, strategy or other type of product takes into account environmentally friendly, sustainable or ethical features and concerns, using misleading labels and language in relation to such products and/or omitting material information about NatWest 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 intervention, claims and/or litigation and reputational damage.

Any failure of NatWest Group to implement robust and effective climate and sustainability-related disclosure governance and to embed appropriate product governance policies, procedures and controls to make accurate public statements and claims about how environmentally friendly, sustainable or ethical NatWest Group's products and services are and to apply these in line with applicable legal and regulatory requirements and expectations, may have a material adverse effect on NatWest Group's regulatory compliance and reputation and could give rise to litigation.

Increasing levels of climate, environmental, human rights and other sustainability-related laws, regulation and oversight which are constantly evolving may adversely affect NatWest Group.

There is an increasing number of EU, UK and other regulatory and legislative initiatives to address issues around climate change (including promoting the transition to a net-zero economy), environment (including nature and biodiversity), human rights and other sustainability-related risks and opportunities. 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.

Many of these initiatives are focused on developing standardised definitions and criteria for green and sustainable criteria of assets and liabilities, integrating climate change and sustainability into decision-making and customers' access to green and sustainable financial products and services which may have a significant impact on the services provided by NatWest Group, and its subsidiaries and its associated credit, market and financial risk profile. They could also impact NatWest Group's recognition of its climate and sustainable funding and financing activity and may adversely affect NatWest Group's ability to achieve its strategy and climate and sustainable funding and financing ambitions.

In addition, NatWest Group's EU and other non-UK subsidiaries and branches are and will continue to be subject to an increasing array of the EU/EEA and US climate and sustainability-related legal and regulatory requirements. These requirements (potentially including the EU Corporate Sustainability Due Diligence Directive or the EU Corporate Sustainability Reporting Directive) may be applicable to UK businesses such as NatWest Group, or used as the basis for UK laws and regulations (such as the UK Green Taxonomy and the FCA's Consultation Paper on 'Sustainability Disclosure Requirements (SDR) and investment labels' (CP 22/20)), or be regarded by investors and regulators as best practice standards whether or not they apply to UK businesses (such as the EU Green Bond Standard). Any divergence between UK, EU/EEA and US climate and sustainability-related legal and regulatory requirements and their interpretation may result in NatWest Group, or any of its subsidiaries, not meeting regulatory requirements, investors' expectations, may increase the cost of doing business (including increased operating costs) and contentious regulatory and litigation risk and may restrict access of NatWest Group's UK business to the EU/EEA and US market.

NatWest Group is also participating in various voluntary carbon reporting and other standard setting initiatives for disclosing climate and sustainability-related information, many of which have differing objectives and methodologies and are at different stages of development in terms of how they apply to financial institutions.

Compliance with these developing and evolving climate and sustainability-related legal and regulatory requirements is likely to require NatWest Group to implement significant changes to its business models, products and other governance, internal controls over financial reporting, disclosure controls and procedures, modelling capability and risk management systems, which may increase the cost of doing business, and entail additional change risk and increased compliance, regulatory sanctions and litigation (including settlements) costs.

Failure to implement and comply with these legal and regulatory requirements or emerging best practice expectations may have a material adverse effect on NatWest Group's regulatory compliance and may result in regulatory sanctions, reputational damage and investor disapproval each of which may have a material adverse effect on NatWest Group's future results, financial condition and/or prospects.

NatWest Group may be subject to potential climate, environmental, human rights 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 NatWest Group, may through their business activities, face increasing litigation, conduct, enforcement and contract liability risks related to climate change, environmental degradation, human rights violations and other social, governance and sustainability-related issues.

These risks may arise, for example, from claims pertaining to: (i) 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 fair, balanced and appropriate disclosure to investors, customers, counterparties and other stakeholders; (ii) 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 NatWest 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; (iii) marketing that portrays products, securities, activities or policies as having positive climate, environmental or sustainable outcomes to an extent that may not be the case, or may not adequately be qualified and/or omits material information about NatWest Group's contribution to the climate crisis and/or its direct / indirect contribution to greenhouse gas emissions or other sustainability-related issues; (iv) damages claims under various tort theories, including common law public nuisance claims, or negligent mismanagement of physical and/or transition risks; (v) 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; (vi) changes in the understanding of what constitutes positive climate, environmental 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; (vii) any weaknesses or failures in specific systems or processes associated particularly with climate, environmental 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; or (viii) counterparties, collaborators, customers to whom NatWest Group provides services and third parties in NatWest 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 NatWest Group's reputation or sustainability credentials.

Furthermore, there is a risk that shareholders, campaign groups, customers and special interest groups could seek to take legal action against NatWest Group for financing or contributing to climate change, environmental degradation and human rights violations 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 a risk that as environmental and climate science develop and societal understanding of these issues increases and deepens, courts, regulators and enforcement authorities may apply the then current understandings of environmental, climate and broader sustainability-related matters retrospectively when assessing claims about historical conduct or dealings of financial institutions, including NatWest Group. See also, *'NatWest Group is exposed to the risks of various litigation matters, regulatory and governmental actions and investigations as well as remedial undertakings, including conduct-related reviews, anti-money laundering and redress projects, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on NatWest Group'*.

These potential litigation, conduct, enforcement and contract liability risks may have a material adverse effect on NatWest Group's ability to achieve its strategy, including its climate ambition, and as a result, could have a material adverse effect on NatWest Group's reputation, future results, financial condition and/or prospects.

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

ESG ratings from agencies and data providers which rate how NatWest 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 (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 by the relevant rating agency; and (v) may depend on many factors some of which are beyond NatWest Group's control (e.g. any change in rating methodology). In addition, certain NatWest Group entities offer or sell products and services to customers and counterparties based exclusively or largely on a rating by an unregulated ESG rating agency. 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 opinion providers and there is a lack of transparency in methodologies and data points, which renders ratings and reviews incomparable between agencies or providers. There is currently no market consensus on what precise attributes are required for a particular asset to be classified as 'ESG'. Any reduction in the ESG ratings of NatWest Group, or a regulatory sanction or enforcement action involving an ESG rating agency used by a NatWest Group entity, could have a negative impact on NatWest Group's reputation, could influence investors' risk appetite for NatWest Group's and/or its subsidiaries' securities, particularly ESG securities, could increase the cost of issuing securities for NatWest Group and/or its subsidiaries and could affect a customer's willingness to deal with NatWest Group. Any of the above could have a material adverse effect on NatWest Group's business, results of operations and outlook.

Operational and IT resilience risk

Operational risks (including reliance on third party suppliers and outsourcing of certain activities) are inherent in NatWest 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. NatWest 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 NatWest Group's compliance with financial crime requirements; see also, '*NatWest Group is exposed to the risks of various litigation matters, regulatory and governmental actions and investigations as well as remedial undertakings, including conduct-related reviews, anti-money laundering and redress projects, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on NatWest Group.*' These risks are also present when NatWest Group relies on critical service providers (suppliers) or vendors to provide services to it or its customers, as is increasingly the case as NatWest Group outsources certain activities, including with respect to the implementation of technologies, innovation and responding to regulatory and market changes.

Operational risks continue to be heightened as a result of the implementation of NatWest Group's purpose-led strategy, and the organisational and operational changes involved, including: NatWest Group's phased withdrawal from ROI, NatWest Group's current cost-controlling measures, the NatWest Markets refocusing, the creation of the Commercial & Institutional business segment, 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 geo-political developments) as well as the legal and regulatory uncertainty resulting therefrom. It is unclear as to how the future ways of working may evolve, including in respect of how working practices may develop, or how NatWest Group will evolve to best serve its customers. Any of the above may place significant pressure on NatWest Group's ability to maintain effective internal controls and governance frameworks.

The effective management of operational risks is critical to meeting customer service expectations and retaining and attracting customer business. Although NatWest 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 NatWest Group. Ineffective management of such risks could have a material adverse effect on NatWest Group's future results, financial condition and/or prospects.

NatWest Group is subject to increasingly sophisticated and frequent cyberattacks.

NatWest Group experiences a constant threat from cyberattacks across the entire NatWest Group and against NatWest Group's supply chain, reinforcing the importance of due diligence of and close working relationship with the third parties on which NatWest Group relies. NatWest 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, NatWest Group is required to continue to invest in additional capability designed to defend against emerging threats. In 2022 , NatWest Group and its supply chain were subjected to a small number of Distributed Denial of Service ('DDOS') and ransomware attacks, which are a pervasive and significant threat to the financial services industry. The focus is to manage the impact of the attacks and sustain availability of services for NatWest Group's customers. NatWest Group continues to invest significant resources in the development and evolution of cyber security controls that are designed to minimise the potential effect of such attacks.

Hostile attempts are made by third parties to gain access to, introduce malware (including ransomware) into and exploit vulnerabilities of, NatWest Group's IT systems. NatWest Group has information and cyber security controls in place to seek to minimise the impact of any such attacks, which are subject to review on a continuing basis but given the nature of the threat, there can be no assurance that such measures will prevent the potential negative impacts of any such attacks from occurring. See also, '*NatWest Group's operations are highly dependent on its complex IT systems and any IT failure could adversely affect NatWest Group.*'

Any failure in NatWest Group's cybersecurity policies, procedures or controls, may result in significant financial losses, major business disruption, inability to deliver customer services, or loss of data or systems or other sensitive information (including as a result of an outage) and may cause associated reputational damage. Any of these factors could increase costs (including costs relating to notification of, or compensation for customers, credit monitoring or card reissuance), result in regulatory investigations or sanctions being imposed or may affect NatWest Group's ability to retain and attract customers. Regulators in the UK, US, Europe and Asia continue to recognise cybersecurity as an important systemic risk to the financial sector and have highlighted the need for financial institutions to improve their monitoring and control of, and resilience (particularly of critical services) to cyberattacks, and to provide timely reporting or notification of them, as appropriate. Cyberattacks on NatWest Group's counterparties may also damage NatWest Group's operations.

Additionally, third parties may also fraudulently attempt to induce employees, customers, third-party providers or other users who have access to NatWest Group's systems to disclose sensitive information in order to gain access to NatWest Group's data or systems or that of NatWest Group's customers or employees. Cybersecurity and information security events can derive from groups or factors such as: internal or external threat actors, human error, fraud or malice on the part of NatWest Group's employees or third parties, including third party providers, or may result from technological failure. Any of the above may have a material adverse effect on NatWest Group's reputation, future results, financial condition and/or prospects.

NatWest Group expects greater regulatory engagement, supervision and enforcement to continue at a high level 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 NatWest Group's future results, financial condition and/or prospects. Due to NatWest Group's reliance on technology and the increasing sophistication, frequency and impact of cyberattacks, such attacks may have a material adverse effect on NatWest Group, its business, results of operations and outlook.

In accordance with the Data Protection Act 2018 and the European Union Withdrawal Act 2018, the Data Protection, Privacy and Electronic Communications (Amendments Etc.) (EU Exit) Regulations 2019, as amended by the Data Protection, Privacy and Electronic Communications (Amendments Etc.) (EU Exit) Regulations 2020 ('UK Data Protection Framework') and European Banking Authority (EBA) Guidelines on ICT and Security Risk Management, NatWest Group is required to ensure it implements timely, appropriate and effective organisational and technological safeguards against unauthorised or unlawful access to the data of NatWest Group, its customers and its employees. In order to meet this requirement, NatWest 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 NatWest Group interacts. A failure to monitor and manage data in accordance with the UK Data Protection Framework and EBA requirements of the applicable legislation may result in financial losses, regulatory fines and investigations and associated reputational damage.

NatWest Group operations and strategy are highly dependent on the accuracy and effective use of data.

NatWest Group relies on the effective use of accurate data to support, monitor, evaluate, manage and enhance its operations and deliver its strategy. Investment is being made in data tools and analytics, including raising awareness around data ethical usage and privacy across NatWest 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 NatWest Group's strategy and could place NatWest 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 NatWest 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, which in turn could have a material adverse effect on NatWest Group's business, results of operations and outlook.

NatWest Group's operations are highly dependent on its complex IT systems and any IT failure could adversely affect NatWest Group.

NatWest 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 payment systems, financial crime, fraud systems and controls, risk management, credit analysis and reporting, accounting, customer service and other IT systems (some of which are owned and operated by other entities in NatWest Group or third parties), as well as the communication networks between its branches and main data processing centres, is critical to NatWest Group's operations.

Individually or collectively, any critical system failure, material loss of service availability or material breach of data security could cause significant damage to: (i) important business services across NatWest Group and (ii) NatWest Group's ability to provide services to its customers, which could result in reputational damage, significant compensation costs and regulatory sanctions (including fines resulting from regulatory investigations) or a breach of applicable regulations and could affect NatWest Group's regulatory approvals, competitive position, business and brands, which could undermine its ability to attract and retain customers. NatWest Group outsources certain functions as it innovates and offers new digital solutions to its customers to meet the demand for online and mobile banking. Outsourcing alongside hybrid working patterns of NatWest Group employees, heighten the above risks.

NatWest Group uses IT systems that enable remote working interface with third-party systems, and NatWest 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 2022, NatWest Group continued to make considerable investments to further simplify, upgrade and improve its IT and technology capabilities (including migration of certain services to cloud platforms). NatWest 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 NatWest Group's operations, its reputation and ability to retain or grow its customer business or adversely affect its competitive position, which could have a material adverse effect on NatWest Group's business, results of operations and outlook.

NatWest Group relies on attracting, retaining and developing diverse senior management and skilled personnel, and is required to maintain good employee relations.

NatWest Group's success depends on its ability to attract, retain through creating an inclusive environment, and develop highly skilled and qualified diverse personnel, including senior management, directors and key employees especially for technology and data focused roles, in a highly competitive market and under internal cost efficiency pressures.

NatWest Group's ability to do this may be more difficult due to the cost-controlling measures, a failure to pay employees competitive compensation, heightened regulatory oversight of banks and the increasing scrutiny of, and (in some cases) restrictions placed upon, employee compensation arrangements (in particular those of banks that have been in receipt of government support such as NatWest Group). This may impact 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 increase the number of departures of existing employees. Moreover, a failure to foster a diverse and inclusive workforce may adversely affect NatWest Group's employee engagement and the formulation and execution of its strategy and could also have a material adverse effect on its reputation with customers, investors and regulators.

The inability to compensate employees competitively and/or any reduction of compensation, as a result of negative economic developments or otherwise, could impair NatWest Group's ability to hire, retain and engage appropriately qualified employees, especially at a senior level, which may have a material adverse effect on NatWest Group's future results, financial condition and/or prospects.

Many of NatWest Group's employees in the UK, the ROI and continental Europe are represented by employee representative bodies, including trade unions and works councils. Engagement with its employees and such bodies is important to NatWest Group in maintaining good employee relations. Any failure to do so may adversely affect NatWest Group's ability to operate its business effectively.

Any of the above could have a material adverse effect on NatWest Group's business, results of operations and outlook.

A failure in NatWest Group's risk management framework could adversely affect NatWest Group, including its ability to achieve its strategic objectives.

Risk management is an integral part of all of NatWest Group's activities and delivery of its long-term strategy. NatWest Group's Enterprise-Wide Risk Management Framework sets out the approach for managing risk within the NatWest Group including in relation to risk governance and risk appetite. A failure to adhere to this framework, or any material weaknesses or deficiencies in the framework's controls and procedures, could adversely affect NatWest Group's financial condition and strategic delivery including in relation to inaccurate adherence to agreed risk appetite statements and accurate risk reporting of risk exposures.

In addition, financial crime risk management is dependent on the use and effectiveness of financial crime assessment, systems and controls. Weak or ineffective financial crime processes and controls may risk 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. NatWest 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.

Ineffective risk management may arise from a wide variety of factors, including lack of transparency or incomplete risk reporting, manual processes and controls, inaccurate data, inadequate IT systems, unidentified conflicts or misaligned incentives, lack of accountability control and governance, incomplete risk monitoring and management or insufficient challenges or assurance processes or a failure to timely complete risk remediation projects. Failure to manage risks effectively, or within regulatory expectations, could adversely affect NatWest Group's reputation or its relationship with its regulators, customers, shareholders or other stakeholders.

NatWest 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 NatWest Group's regulatory obligations, customers' needs or do not reflect NatWest 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, 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.

NatWest Group's businesses are also exposed to risks from employee 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 NatWest Group. Remote working arrangements for NatWest Group employees continues to place heavy reliance on the IT systems that enable remote working and may place additional pressure on NatWest Group's ability to maintain effective internal controls and governance frameworks. Remote working arrangements are also subject to regulatory scrutiny to ensure adequate recording, surveillance and supervision of regulated activities, and compliance with regulatory requirements and expectations, including requirements to: meet threshold conditions for regulated activities; ensure the ability to oversee functions (including any outsourced functions); ensure no detriment is caused to customers; and ensure no increased risk of financial crime.

NatWest Group has been seeking to embed a strong risk 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 risk management strategy in line with regulatory expectations. However, such efforts may not insulate NatWest Group from instances of misconduct and no assurance can be given that NatWest Group's strategy and control framework will be effective. Any failure in NatWest Group's risk management framework could negatively affect NatWest Group and its financial condition through reputational and financial harm and may result in the inability to achieve its strategic objectives for its customers, employees and wider stakeholders.

Any of the above could have a material adverse effect on NatWest Group's business, results of operations and outlook.

NatWest Group's operations are subject to inherent reputational risk.

Reputational risk relates to stakeholder and public perceptions of NatWest Group arising from an actual or perceived failure to meet stakeholder or the public's expectations, including with respect to NatWest Group's purpose-led strategy and related targets, the creation of the Commercial & Institutional business segment, the progression towards working as One Bank across the NatWest Group to serve customers, or due to any events, behaviour, action or inaction by NatWest Group, its employees or those with whom NatWest Group is associated. See also '*NatWest Group's businesses are subject to substantial regulation and oversight, which are constantly evolving and may adversely affect NatWest Group.*' This includes harm to its brand, which may be detrimental to NatWest Group's business, including its ability to build or sustain business relationships with customers, 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 NatWest Group's ability to attract and retain customers. In particular, NatWest Group's ability to attract and retain customers (particularly, corporate/institutional and retail depositors) and engage with counterparties may be adversely affected by factors including: negative public opinion resulting from the actual or perceived manner in which NatWest Group conducts or modifies its business activities and operations, media coverage (whether accurate or otherwise), employee misconduct, NatWest Group's financial performance, IT systems failures or cyberattacks, data breaches, financial crime and fraud, the level of direct and indirect government support, or the actual or perceived practices in the banking and financial industry in general, or a wide variety of other factors, each of which could have a material adverse effect on NatWest Group's business, results of operations and outlook.

Modern 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 NatWest Group has implemented a Reputational Risk Policy to monitor the identification, assessment and management of customers, transactions, products and issues, which represent a reputational risk, NatWest Group cannot be certain that it will be successful in avoiding damage to its business from reputational risk.

Any of the above could have a material adverse effect on NatWest Group's business, results of operations and outlook.

Legal, regulatory and conduct risk

NatWest Group's businesses are subject to substantial regulation and oversight, which are constantly evolving and may adversely affect NatWest Group.

NatWest 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. NatWest Group expects government and regulatory intervention in the financial services industry to remain high for the foreseeable future.

In recent years, regulators and governments have focused on reforming the prudential regulation of the financial services industry and the manner in which the business of financial services is conducted. Measures have included: enhanced capital, liquidity and funding requirements, implementation of the UK ring-fencing regime, implementation and strengthening of the recovery and resolution framework applicable to financial institutions in the UK, the EU and the US, financial industry reforms (including in respect of MIFID II), corporate governance requirements, restrictions on the compensation of senior management and other employees, enhanced data protection and IT resilience requirements, financial market infrastructure reforms (including enhanced data protection and IT resilience requirements) enhanced regulations in respect of the provision of 'investment services and activities', and increased regulatory focus in certain areas, including conduct, consumer protection, competition and disputes regimes, anti-money laundering, anti-corruption, anti-bribery, anti-tax evasion, payment systems, sanctions and anti-terrorism laws and regulations.

In addition, there is significant oversight by competition authorities of the jurisdictions in which NatWest Group operates. The competitive landscape for banks and other financial institutions in the UK, EU/EEA, Asia and the US is rapidly changing. Recent regulatory and legal changes have and may continue to result in new market participants and changed competitive dynamics in certain key areas. Regulatory and competition authorities, including the CMA, are currently also looking at and focusing more on how they can support competition and innovation in digital and other markets. Recent regulatory changes, proposed (such as US proposals to increase regulation around cybersecurity) or future developments and heightened levels of public and regulatory scrutiny in the UK, the EU and the US have resulted in increased capital, funding and liquidity requirements, changes in the competitive landscape, changes in other regulatory requirements and increased operating costs, and have impacted, and will continue to impact, product offerings and business models.

Other areas in which, and examples of where, governmental policies, regulatory and accounting changes, and increased public and regulatory scrutiny could have an adverse effect (some of which could be material) on NatWest 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 NatWest Group operates;
- rules relating to foreign ownership, expropriation, nationalisation and confiscation of assets;
- increased scrutiny including from the CMA, FCA and Payment Systems Regulator ('PSR') for the protection and resilience of, and competition and innovation in, digital and other markets, UK payment systems and retail banking developments relating to the UK initiative on Open Banking, Open Finance and the European directive on payment services;
- the ongoing compliance by NatWest Group with CMA's Market Orders including the Retail Banking Market Order 2017 (the 'Order') and SME Undertakings as well as the ongoing consultation by the UK Government to introduce penalties for breaches of such requirements (in addition to the current customer remediation requirements);
- ongoing competition litigation in the English courts around payment card interchange fees, combined with increased regulatory scrutiny (from the PSR) of the Visa and Mastercard card schemes;
- increased risk of new class action claims being brought against NatWest Group in the Competition Appeal Tribunal for breaches of competition law;
- new or increased regulations relating to customer data protection as well as IT controls and resilience, such as the proposed UK Data Protection and Digital Information Bill and in India, the Digital Personal Data Protection Bill;
- the introduction of, and changes to, taxes, levies or fees applicable to NatWest Group's operations, such as the imposition of a financial transaction tax, introduction of global minimum tax rules, changes in tax rates, changes in the scope and administration of the Bank Levy, increases in the bank corporation tax surcharge in the UK, restrictions on the tax deductibility of interest payments or further restrictions imposed on the treatment of carry-forward tax losses that reduce the value of deferred tax assets and require increased payments of tax;
- increased regulatory focus on customer protection (such as the FCA's Consumer Duty policy statement and final rules and guidance) in retail or other financial markets;
- the potential introduction by the Bank of England of a Central Bank Digital Currency which could result in deposit outflows, higher funding costs, and/or other implications for UK banks including NatWest Group; and
- regulatory enforcement in the form of PRA imposed financial penalties for failings in banks' regulatory reporting governance and controls, and regulatory scrutiny following the 2019 PRA 'Dear CEO letter' regarding PRA's ongoing focus on: the integrity of regulatory reporting, which the PRA considers has equal standing with financial reporting; the PRA's thematic reviews of the governance, controls and processes for preparing regulatory returns of selected UK banks, including NatWest Group; the publication of the PRA's common findings from those reviews in September 2021; and NatWest Group's programme of improvements to meet PRA expectations.

These and other recent regulatory changes, proposed or future developments and heightened levels of public and regulatory scrutiny in the UK, the EU and the US have resulted in increased capital, funding and liquidity requirements, changes in the competitive landscape, changes in other regulatory requirements and increased operating costs, and have impacted, and will continue to impact, competitive position, product offerings and business models. Future competition investigations, market reviews, or the regulation of mergers may lead to the imposition of financial penalties or market remedies that may adversely affect NatWest Group's competitive or financial position. Any of these developments (including any failure to comply with new rules and regulations) could also have a significant impact on NatWest Group's authorisations and licences, the products and services that NatWest Group may offer, its reputation and the value of its assets, NatWest Group's operations or legal entity structure, and the manner in which NatWest Group conducts its business. Material consequences could arise should NatWest 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 NatWest 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 NatWest Group to comply with such laws, rules and regulations, may have a material adverse effect on NatWest 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 NatWest Group's ability to engage in effective business, capital and risk management planning.

NatWest Group is exposed to the risks of various litigation matters, regulatory and governmental actions and investigations as well as remedial undertakings, including conduct-related reviews, anti-money laundering and redress projects, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on NatWest Group.

NatWest 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. NatWest Group has resolved a number of legal and regulatory actions over the past several years but continues to be, and may in the future be, involved in such actions in the US, the UK, Europe and other jurisdictions.

NatWest Group is currently, has 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. 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. NatWest 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. For additional information relating to this and other legal and regulatory proceedings and matters to which NatWest Group is currently exposed, see '*Litigation and regulatory matters*' at Note 26 to the consolidated accounts.

The 2021 guilty plea, other 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 NatWest Group's business and result in restrictions or limitations on NatWest 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 NatWest 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 NatWest Group's business, in particular in the US. This in turn and/or any fines, settlement payments or penalties may adversely affect NatWest Group's reputation, future results, financial condition and/or prospects.

Failure to comply with undertakings made by NatWest 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 NatWest 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 NatWest Group's operations, additional supervision by NatWest Group's regulators, and loss of investor confidence.

Any of the above could have a material adverse effect on NatWest Group's business, results of operations and outlook, capital position or its ability to meet regulatory capital adequacy requirements.

NatWest Group may not effectively manage the transition of LIBOR and other IBOR rates to replacement risk-free rates.

UK and international regulators are driving the transition from the use of interbank offer rates ('IBORs'), to replacement rates generally referred to as 'risk-free rates' ('RFRs'). As of 31 December 2021, LIBOR, as currently determined, has ceased for all tenors of GBP, JPY, CHF, EUR, and for the 1 week and 2-month tenors for USD. The remaining USD LIBOR tenors, as currently determined, are due to cease after 30 June 2023. The FCA has used its powers under the UK Benchmarks Regulation ('UK BMR') to require, for a limited period of time after 31 December 2021, the ongoing publication of the 1-, 3-, and 6-month GBP and JPY LIBOR tenors using a changed methodology (i.e., 'Art23A LIBOR' on a synthetic basis). The UK has passed the Critical Benchmarks (References and Administrators' Liability)

Act 2021 ('Critical Benchmarks Act') which establishes a framework that allows the ongoing use of Art23A LIBOR under certain circumstances where contracts have not pro-actively transitioned onto the replacement rates. These concessions provided under UK BMR and the Critical Benchmarks Act are temporary. The FCA confirmed that Art23A will no longer be available from: (i) the end of 2022 for JPY, (ii) March 2023 for 1- and 6-month GBP LIBOR and (iii) March 2024 for 3-month GBP LIBOR. The transition away from these temporary concessions may expose NatWest Group, its customers and the financial services industry more widely to various risks, including: (i) the FCA further restricting use of Art23A LIBOR resulting in proactive transition of contracts; and (ii) mis-matches between positions in cleared derivatives and the exposures they are hedging where those exposures are permitted to make use of Art23A LIBOR. Although the formal cessation date for the remaining USD LIBOR tenors (as currently determined) is not until the end of June 2023, US and UK regulators have clarified that this is only to support the rundown of existing USD LIBOR exposures. No new contracts should reference these USD LIBOR tenors after 31 December 2021, other than in a very limited range of circumstances. NatWest Group will continue to have ongoing exposure to the remaining USD LIBOR tenors until cessation in June 2023.

NatWest Group has held significant exposures to various IBORs and has actively sought to transition away from these during 2021 and 2022 in accordance with regulatory expectations and milestones. Transition measures have included the pro-active development of new products using the replacement rates, restructuring existing LIBOR exposures to reference these replacement rates and embedding RFR transition language into relevant contracts. Central Counterparty Clearing houses (CCPs) conducted mass conversion exercises in December 2021 covering GBP, JPY, CHF and EUR LIBOR, transitioning derivatives to the relevant RFR, conversion exercises for USD are scheduled for May 2023. NWG entities, along with many of their major counterparties, have adhered to the ISDA IBOR fall-backs protocol which establishes a contractual process to transition from IBORs to RFRs for bilateral derivative products.

These transition efforts have involved extensive engagement with customers, industry working groups and regulators to seek to deliver transition in a transparent and economically appropriate manner. These changes coincide with the recognition that market liquidity is lower than it has been and whilst it will be inherently difficult to disaggregate the different impacts from each other it may be that similar levels of market liquidity are not reached for these RFR products, clear and consistent market conventions for all replacement products may not be implemented or they may not be accepted by market participants including NatWest Group counterparties. Where there remains an uncertainty around the manner of transition to RFRs, NatWest Group, clients and the financial services industry are exposed to the related risks.

Examples of these risks include (i) legal (including litigation) risks relating to documentation for new and the majority of existing transactions (including, changes, lack of changes, unclear contractual provisions, and disputes in respect of these); (ii) financial risks from any changes in valuation of financial instruments linked to relevant IBORs, including cost of funds and relevant risk management related financial models; (iii) changes to benchmark rates could impact pricing, interest rate or settlement mechanisms for certain instruments; (iv) operational risks linked to the adaptation of IT systems, trade reporting infrastructure and operational processes, as well as ensuring compliance with restrictions on new USD LIBOR usage after December 2021; (v) conduct risks arising from communication of the potential impact on customers, engagement with customers during and after the transition period, or non-acceptance by customers of replacement rates; and (vi) different legislative provisions in different jurisdictions, for example, unlike certain US states and the EU, the UK has not provided a clear and robust safe harbour to protect against litigation and potential liability arising out of the switch to 'synthetic LIBOR'.

Although the majority of NWG's IBOR exposure has already been transitioned to RFRs, there remains a large population linked to USD LIBOR, scheduled for transition by June 2023. Until IBOR transition is complete there is some uncertainty as to the impact of the transition, or the potential costs of implementing any relevant remedial action including in the event that the transition is not completed in a timely manner, or at all. The implementation of any alternative RFRs may be impossible or impracticable under the existing terms of certain financial instruments and may have a material adverse effect on their value or return and therefore on NatWest Group's future results.

Changes in tax legislation or failure to generate future taxable profits may impact the recoverability of certain deferred tax assets recognised by NatWest Group.

In accordance with the accounting policies set out in *'Critical accounting policies and sources of estimation uncertainty'*, NatWest Group has recognised deferred tax assets on losses available to relieve future profits from tax only to the extent it is probable that they will be recovered. The deferred tax assets are quantified on the basis of current tax legislation and accounting standards and are subject to change in respect of the future rates of tax or the rules for computing taxable profits and offsetting allowable losses.

Failure to generate sufficient future taxable profits or further changes in tax legislation (including with respect to rates of tax) or accounting standards may reduce the recoverable amount of the recognised tax loss deferred tax assets, amounting to £2,178 million as at 31 December 2022. Changes to the treatment of certain deferred tax assets may impact NatWest Group's capital position. In addition, NatWest Group's interpretation or application of relevant tax laws may differ from those of the relevant tax authorities and provisions are made for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. The amounts ultimately paid may differ materially from the amounts provided depending on the ultimate resolution of such matters.

Any of the above could have a material adverse effect on NatWest Group's business, results of operations and outlook.

Additional information

Description of property and equipment

NatWest Group operates from a number of locations worldwide, principally in the UK. At 31 December 2022, RBS plc and NWB Plc had 92 and 594 retail branches respectively, in the UK. Ulster Bank has a footprint of 123 branches and a network of business banking offices across Northern Ireland and the Republic of Ireland (35 Northern Ireland and 88 Republic of Ireland), of which 25 were sold to Permanent TSB plc in January 2023 as part of the recently agreed sale. A majority of the UK branches are owned (c. 60%) by NWB Plc with the remainder held under leases of varying unexpired terms. NatWest Group's principal properties include its headquarters at Gogarburn, Edinburgh, its principal offices in London is 250 Bishopsgate.

Major shareholders

Following placing and open offers in December 2008 and in April 2009, HM Treasury (HMT) owned approximately 70.3% of the enlarged ordinary share capital of the company. In December 2009, company issued a further £25.5 billion of new capital to HMT in the form of B shares. HMT sold 630 million of its holding of the company's ordinary shares in August 2015. In October 2015 HMT converted its entire holding of 51 billion B shares into 5.1 billion new ordinary shares of £1 each in the company. HMT sold a further 925 million of its holding of the company's ordinary shares in June 2018, taking their percentage held of issued share capital with voting rights to 62.4%.

In March 2021, the company carried out an off-market purchase of 591 million of its ordinary shares from HMT, taking their percentage held to 59.76%. In May 2021, HMT sold 580 million ordinary shares through an accelerated book building process to institutional investors, taking their percentage held to 54.75%. In July 2021, HMT announced its intention to sell part of its shareholding over a 12 month period from August 2021 via a trading plan, for up to 15% of the aggregate total trading volume. In June 2022 the trading plan was extended for a further 12 month term to August 2023. On 11 February 2022, a notification was received from HMT (under Rule 5 of the Disclosure and Transparency Rules ('DTR')), notifying that their percentage held of issued share capital with voting rights was 50.94%.

In March 2022, the company carried out an off-market purchase of 550 million of its ordinary shares from HMT, taking their percentage held to 48.03%. At 31 December 2022, HMT's holding in the total voting rights of the company was 45.97%. 4,443m ordinary shares, representing 45.97% of the issued share capital with voting rights (the percentage was correct as at the date of notification on 21 December 2022). On 2 February 2023 a DTR notification was received from HMT notifying that they held 4,254 million ordinary shares, representing 43.97% of the issued share capital with voting rights. Since 1 January 2018, the company has redeemed substantially all of the preference shares that were in issue (refer to Note 19 for further details). All shareholders within a class of the company's shares have the same voting rights, this includes the ordinary shares held by HMT.

At the 2021 Annual General Meeting, shareholders authorised the company to make an off-market purchase of cumulative preference shares in the company. In December 2021 the company used this authority to purchase 157,546 5.5% cumulative preference shares and 259,314 11% cumulative preference shares. The company cancelled all of the purchased preference shares.

The company announced on 2 February 2022 that it had given notice to holders of the redemption of the Series U Non- Cumulative Dollar Preference Shares. On 31 March 2022, the Series U Dollar Non-cumulative Preference Shares, of amount outstanding US$1,013,000,000 were redeemed at the redemption price of US$100,000 per Series U Dollar Preference Share plus accrued dividends equalling $635.94 per share.

As at 31 December 2022 almost all of the company's US$ denominated American Depository Shares representing ordinary shares were held by shareholders registered in the US. All other shares were predominantly held by shareholders registered outside the US.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The Buyback Programme (Phase 1)

On 30 July 2021, the Company announced a share buyback programme (the "Programme") of up to an aggregate market value equivalent of £750 million in ordinary shares in the Company ("Ordinary Shares"). Phase 1 of the Programme commenced on 2 August 2021 and completed on 18 January 2022.

The Programme, the purpose of which was to reduce the capital of the Company, was conducted within the limitations of the authority granted by the Company's shareholders to the Board at the Company's Annual General Meeting, held on 28 April 2021 (the "2021 Authority"). The maximum number of Ordinary Shares that the Company was authorized to repurchase under the Programme was 1,157,583,542. This number reflects the impact on the 2021 Authority of the reduction in the issued share capital of the Company as a result of the off-market buyback on 19 March 2021 by the Company of 590,730,325 Ordinary Shares from HM Treasury (the "2021 Off-Market Buyback").

The Company entered into non-discretionary instructions with UBS AG, London Branch to conduct Phase 1 of the Programme on its behalf and to make trading decisions under the Programme independently of the Company.

The Company cancelled the Ordinary Shares it repurchased under Phase 1 of Programme.

The Buyback Programme (Phase 2)

On 18 February 2022, the Company announced a share buyback programme (Phase 2 of the Programme") of up to an aggregate market value equivalent of £750 million in Ordinary Shares. Phase 2 of the Programme commenced on 21 February 2022 and ended on 15 July 2022.

Phase 2 of the Programme, the purpose of which was to reduce the issued share capital of the Company, was conducted within the limitations of the 2021 Authority. The maximum number of Ordinary Shares that the Company was authorized to repurchase under Phase 2 of the Programme was 817,046,082. This number reflects the impact on the 2021 Authority of the reduction in issued share capital following the 2021 Off-Market Buyback and is further reduced by the number of shares purchased by the Company under Phase 1 of the Programme.

The Company entered into non-discretionary instructions with UBS AG, London Branch to conduct Phase 2 of the Programme on its behalf and to make trading decisions under the Programme independently of the Company.

The Company cancelled the Ordinary Shares it repurchased under Phase 2 of the Programme.

Issuer Purchases of Equity Securities

Period	Total number of shares purchased[1]	Average price paid per share in £	Total number of shares purchased as part of publicly announced or programmes[2]	Maximum value of shares that may yet be purchased under the plans or programmes in £ million
January 2022[3]	29,735,044	244.8811	29,735,044	–
February 2022[4]	23,903,977	233.7593	23,903,977	694
March 2022[4]	94,355,888	186.9743	94,355,888	493
April 2022[4]	68,271,785	206.6792	68,271,785	344
May 2022[4]	75,043,770	191.3648	75,043,770	187
June 2022[4]	51,607,473	189.2904	51,607,473	73
July 2022[4]	33,652,929	216.2822	33,652,929	–
Total	376,570,866	209.8901	376,570,866	–

(1) The table excludes purchases by the Company or its affiliates for market-making in Ordinary Shares.
(2) The table excludes (i) the off-market purchase by the Company of 590,730,325 Ordinary Shares from HM Treasury on 19 March 2021 and (ii) the off-market purchase by the Company of 549,851,147 Ordinary Shares from HM Treasury on 28 March 2022.
(3) Purchases made pursuant to Phase 1 of the Programme.
(4) Purchases made pursuant to Phase 2 of the Programme.

Our Code of conduct

NatWest Group has adopted a code of conduct which is supplemented by a number of key policies and guidance dealing ith matters including, among others, anti-bribery and corruption, anti-money laundering, sanctions, confidentiality, inside information, health, safety and environment, conflicts of interest, market conduct and management records. This code of conduct applies to all officers and employees and is fully aligned to the PRA and FCA Conduct Rules which apply to all directors. The Code of Conduct is available to view on NatWest Group's website at natwestgroup.com.

Iran sanctions and related disclosures

Disclosure pursuant to section 13(r) of the Securities Exchange Act

Section 13(r) of the Securities Exchange Act, added by section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012, requires an issuer to disclose in its annual or quarterly reports, as applicable, whether, during the period covered by the report, it or any of its affiliates knowingly engaged in specified activities or transactions relating to Iran or with individuals or entities designated under Executive Order 13382 or 13224. Disclosure is required of certain activities conducted outside the United States by non-U.S. entities in compliance with local law, whether or not the activities are sanctionable under U.S. law.

In order to comply with this requirement, the following activities of NatWest Group's affiliates are disclosed in response to section 13(r).

Transactions involving Iranian Government owned entities

During 2022 affiliates of NatWest Group facilitated five payments which were remitted by, or on behalf of, Iranian Government owned entities and/or designated under Executive Order 13382 or 13224, and received by NatWest Group customers (non-designated and located in the United Kingdom) in relation to legal fees.

All the payments described above were processed in full compliance with applicable sanctions and where relevant, authorised under applicable licence.

The transactions described above resulted in £2001.35 gross revenue to NatWest Group. Considering the processes in place to undertake such transactions, including enhanced due diligence processes, the profit from these transactions was negligible. NatWest Group has a restrictive risk appetite in relation to transactions involving Iran and will only continue to engage in transactions similar to those described above as long as such transactions are in compliance with applicable sanctions laws and within NatWest Group's risk appetite.

NatWest Group maintain one account for an Iranian Government entity located in the United Kingdom. The purpose of the account is to facilitate UK domestic transactions only for employees' salaries and operating costs such as UK taxes and utilities. No commercial activity is processed through the account.

Guarantees

Under applicable licenses granted by appropriate authorities, affiliates of NatWest Group hold three legacy guarantees entered into between 1984 and 1998, which support arrangements lawfully entered into by affiliates of NatWest Group customers with Iranian counterparties. These legacy guarantees are in favour of Iranian Government owned financial institutions. The affiliates of NatWest Group have made considerable efforts to exit and formally cancel the guarantees.

Iranian Petroleum Industry

Section 13(r) of the Securities Exchange Act (as amended) requires disclosure of any knowing engagement in activity described in section 5 (a) or (b) of the Iran Sanctions Act, including significant investments in or transactions that could develop the Iranian petroleum or petrochemical sectors.

During 2022, no transactions that meet this criteria have been facilitated by NatWest Group.

Supervision

United Kingdom

The home supervisors for NatWest Group are the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). As with all significant banking institutions, the PRA is the consolidated supervisor of NatWest Group. The FCA's overall objective is to ensure financial markets function well. This is supported by its operational objectives of: securing an appropriate degree of protection for consumers; protecting and enhancing the integrity of the UK financial system; and promoting effective competition in the interests of consumers.

As at 31 December 2022, 11 companies in NatWest Group, spanning a range of financial services sectors, including banking and investment business, were authorised to conduct financial activities in the UK. The material UK authorised banks in NatWest Group are The Royal Bank of Scotland plc (RBS plc), National Westminster Bank Plc (NWB Plc), NatWest Markets Plc (NWM Plc) and Coutts & Company. Wholesale activities, other than Treasury activities, are concentrated in NatWest Markets Plc. Retail banking activities in England, Scotland and Wales are managed by the Retail Banking, Commercial & Institutional Banking and Wealth businesses of RBS plc, NWB Plc and Coutts & Company. In June 2019, NatWest Group announced its intention to transfer its UBL business to NWB Plc in order to simplify the current legal entity structure of NatWest Group. This was completed in May 2021, at which point UBL became a trading name of NWB Plc. The UBL regulated entity was deauthorised in December 2022.

NatWest Group's banking service in the Republic of Ireland is provided by Ulster Bank Ireland DAC (UBI DAC), which is supervised by the Central Bank of Ireland and the European Central Bank under the Single Supervisory Mechanism. In February 2021, NatWest Group announced the phased withdrawal of UBI DAC from the Republic of Ireland which remains ongoing.

Investment management business is principally undertaken by companies in the Commercial & Institutional Banking and Wealth businesses, including Coutts & Company.

NatWest Group is subject to extensive regulations that impose obligations on financial institutions to maintain appropriate policies, procedures and controls to ensure compliance with the rules and regulations to which they are subject.

United States

NatWest Group conducts business in the US through its investment bank, NWM Plc. NWM Plc's regulated entities in the US are: its broker-dealer affiliate, NatWest Markets Securities Inc. (NWMSI); NWMSI's Futures Commission Merchant (FCM); NWBM Plc's non-FCM clearing member; NWM Plc's non-US-based Swap Dealer; and NWM Plc's Connecticut Representative Office. NWM Plc is subject to the supervision of the Board of Governors of the Federal Reserve System (Federal Reserve) due to an outstanding enforcement action brought against NatWest Group by the Federal Reserve, namely the 2015 FX Cease and Desist Consent Order.

In addition, NWMSI is a Primary Dealer of the Federal Reserve, which makes it subject to the supervision of the Federal Reserve Bank of New York (FRB-NY).

NWMSI is subject to the regulations of a number of US securities regulators, mainly the Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA), Options Clearing Corporation (OCC), Depository Trust & Clearing Corporation (DTCC), and various state regulators. NWMSI's FCM is mainly subject to the regulations of the Commodity Futures Trading Commission (CFTC), National Futures Association (NFA), the Chicago Mercantile Exchange Group (CME), and the Intercontinental Exchange (ICE) Futures US.

NWM Plc is a non-FCM clearing member of the CME and is subject to the regulations of the CME and the CFTC. NWM Plc is also a non-US-based provisionally-registered swap dealer and as such it is subject to oversight by the US regulators the CFTC and the NFA.

The NWM Plc Connecticut Representative Office is supervised by the FRB-NY and the Connecticut Department of Banking.

The anti-money laundering, anti-terrorism and economic sanctions regulations are a major focus of the US government for financial institutions and are rigorously enforced by most of the regulators mentioned above and the Financial Crimes Enforcement Network (FinCEN) of US Department of the Treasury.

Other jurisdictions

NatWest Group operates in a number of countries through a network of branches, local banks and non-bank subsidiaries and these activities are subject to supervision in most cases by a local regulator or central bank.

Material contracts

The company and its subsidiaries are party to various contracts in the ordinary course of business. Material contracts include the following:

B Share Acquisition and Contingent Capital Agreement

On 26 November 2009, the company and HM Treasury entered into the Acquisition and Contingent Capital Agreement pursuant to which HM Treasury subscribed for the initial B shares and the Dividend Access Share (the Acquisitions) and agreed the terms of HM Treasury's contingent subscription (the Contingent Subscription) for an additional £8 billion in aggregate in the form of further B shares (the Contingent B shares), to be issued on the same terms as the initial B shares. The Acquisitions were subject to the satisfaction of various conditions, including the company having obtained the approval of its shareholders in relation to the Acquisitions.

On 16 December 2013, the company announced that, having received approval from the PRA, it had terminated the £8 billion Contingent Subscription. The company was able to cancel the Contingent Subscription as a result of the actions announced in the second half of 2013 to further strengthen its capital position.

On 9 October 2015, the company announced that on 8 October 2015, it had received a valid conversion notice from HM Treasury in respect of all outstanding B shares held by HM Treasury. The new ordinary shares issued on conversion of the B shares were admitted to the official list of the UK Listing Authority (UKLA), and to trading on the London Stock Exchange plc, on 14 October 2015. Following such conversion, HM Treasury no longer holds any B shares.

The company gave certain representations and warranties to HM Treasury on the date of the Acquisition and Contingent Capital Agreement, on the date the circular was posted to shareholders, on the first date on which all of the conditions precedent were satisfied, or waived, and on the date of the Acquisitions. The company also agreed to a number of undertakings.

The company agreed to reimburse HM Treasury for its expenses incurred in connection with the Acquisitions.

For as long as it is a substantial shareholder of the company (within the meaning of the UKLA's Listing Rules), HM Treasury has undertaken not to vote on related party transaction resolutions at general meetings and to direct that its affiliates do not so vote

Directed Buyback Contract

On 7 February 2019, the company and HM Treasury entered into the Directed Buyback Contract to help facilitate the return of the company to full private ownership through the use of any excess capital to buy back the company's ordinary shares held by HM Treasury.

Under the terms of the Directed Buyback Contract, the company may agree with HM Treasury to make off-market purchases from time to time of its ordinary shares held by HM Treasury, including by way of one or more standalone purchases, through a non-discretionary, broker-managed directed trading programme, or in conjunction with any offer or sale by HM Treasury by way of an institutional placing. Neither the company nor HM Treasury would be under an obligation to agree to make such off-market purchases and would only do so subject to regulatory approval at the time.

The aggregate number of ordinary shares which the company may purchase from HM Treasury under the Directed Buyback Contract will not exceed 4.99%. of the company's issued share capital and the aggregate consideration to be paid will not exceed 4.99%. of the company's market capitalisation. The price to be paid for each ordinary share will be the market price at the time of purchase or, if the directed buyback is in conjunction with an institutional placing, the placing price.

To date, the company has made two separate off-market purchases under the Directed Buyback Contract. One purchase took place in 2021, and another took place in 2022.

On 19 March 2021, the company announced that it had agreed with HM Treasury to make an off-market purchase under the Directed Buyback Contract for the total consideration of £1,125,341,269 for 590,730,325 ordinary shares representing 4.86% of the company's issued share capital at that point in time.

The following year, on 28 March 2022, the company announced an additional off-market purchase of 549,851,147 ordinary shares for the total consideration of £1,212,421,779. The purchased ordinary shares represented 4.91% of the company's issued share capital at the time (excluding treasury shares). This took HM Treasury's ownership in the company below 50% for the first time since 2008.

Framework and State Aid Deed

As a result of the State Aid granted to the company, it was required to work with HM Treasury to submit a State Aid restructuring plan to the European Commission (EC), which was then approved by the EC under the State Aid rules on 14 December 2009. The company agreed a series of measures which supplemented the measures in the company's strategic plan.

The company entered into a State Aid Commitment Deed with HM Treasury at the time of the initial EC decision and, following the EC's approval of amendments to the restructuring plan in April 2014, the company entered into a revised State Aid Commitment Deed with HM Treasury. In September 2017, the revised State Aid Commitment Deed was amended by a Deed of Variation (as so amended, the "Revised State Aid Commitment Deed") following the EC's approval of an alternative remedies package (the "Alternative Remedies Package") to replace the company's final outstanding commitment under its State Aid obligations (to divest the business previously known as Williams & Glyn).

On 25 April 2018, the Revised State Aid Commitment Deed was replaced by the Framework and State Aid Deed between the company, HM Treasury and an independent body established to facilitate and oversee the delivery of the Alternative Remedies Package (the "Independent Body"). Under the Framework and State Aid Deed, the company agrees to do all acts and things necessary to ensure that HM Treasury is able to comply with its obligations under any EC decision approving State Aid to the company, including under the Alternative Remedies Package.

Pursuant to the Framework and State Aid Deed, the company has committed: (i) £425 million into a fund for eligible bodies in the UK banking and financial technology sectors to develop and improve their capability to compete with the company in the provision of banking services to small and medium-sized enterprises ("SMEs") and develop and improve the financial products and services available to SMEs (the "Capability and Innovation Fund"); and (ii) £275 million to eligible bodies to help them incentivise SME banking customers within the division of the company previously known as Williams & Glyn to switch their business current accounts and loans to the eligible bodies (the "Incentivised Switching Scheme").

The company has also agreed to set aside up to a further £75 million in funding to cover certain costs customers may incur as a result of switching under the Incentivised Switching Scheme. In addition, under the terms of the Alternative Remedies Package, should the uptake within the Incentivised Switching Scheme not be sufficient, the company may be required to make a further contribution, capped at £50 million. The Independent Body will distribute funds from the Capability and Innovation Fund and implement the Incentivised Switching Scheme.

Under the Framework and State Aid Deed, the company also agreed to indemnify the Independent Body and HM Treasury, up to an amount of £320 million collectively to cover liabilities that may be incurred in implementing the Alternative Remedies Package. The provisions of the indemnity to the Independent Body are set out in the Framework and State Aid Deed and the provisions of the indemnity to HM Treasury are set out in a separate agreement between the company and HM Treasury, described under "*Deed of Indemnity*" below.

The Framework and State Aid Deed also provides that if the EC adopts a decision that the UK Government must recover any State Aid (a "Repayment Decision") and the recovery order of the Repayment Decision has not been annulled or suspended by the General Court or the European Court of Justice, then the company must repay HM Treasury any aid ordered to be recovered under the Repayment Decision.

Deed of Indemnity
In the context of the Framework and State Aid Deed, the company entered into a Deed of Indemnity with HM Treasury on 25 April 2018, pursuant to which the company agreed to indemnify HM Treasury to cover liabilities that may be incurred in implementing the Alternative Remedies Package, as described under "*Framework and State Aid Deed*" above.

Trust Deed
In the context of the Framework and State Aid Deed, the company entered into a Trust Deed with the Independent Body on 25 April 2018, to set up a trust to administer the funds committed by the company under the Framework and State Aid Deed for the Alternative Remedies Package.

State Aid Costs Reimbursement Deed
Under the 2009 State Aid Costs Reimbursement Deed, the company has agreed to reimburse HM Treasury for fees, costs and expenses associated with the State Aid and State Aid approval.

HMT and UKFI Relationship Deed
On 7 November 2014, in order to comply with an amendment to the UK Listing Rules, the company entered into a Relationship Deed with HM Treasury and UK Financial Investments Limited in relation to the company's obligations under the UK Listing Rules to put in place an agreement with any controlling shareholder (as defined for these purposes in the Listing Rules). The Relationship Deed covers the three independence provisions mandated by the Listing Rules: (i) that contracts between the company and HM Treasury (or any of its subsidiaries) will be arm's length and normal commercial arrangements, (ii) that neither HM Treasury nor any of its associates will take any action that would have the effect of preventing the company from complying with its obligations under the Listing Rules; and (iii) neither HM Treasury nor any of its associates will propose or procure the proposal of a shareholder resolution which is intended or appears to be intended to circumvent the proper application of the Listing Rules.

Memorandum of Understanding Relating to The Royal Bank of Scotland Group Pension Fund
On 16 April 2018 the company entered into a Memorandum of Understanding (the "MoU") with the trustee of The Royal Bank of Scotland Group Pension Fund (the "Group Fund"), which aimed to facilitate both the necessary changes to the Main Section of the Group Fund to align the employing entity structure with the requirements of the UK ring-fencing legislation and acceleration of the settlement framework for the 31 December 2017 triennial valuation of the Main Section of the Group Fund (brought forward from 31 December 2018).

In addition, the MoU also provided clarity on the additional related funding contributions required to be made by the company to the Main Section of the Group Fund as follows: (i) a pre-tax payment of £2 billion that was made in the second half of 2018 and (ii) from 1 January 2020, further pre-tax contributions of up to £1.5 billion in aggregate linked to the making of future distributions to RBS shareholders including ordinary and special dividends and/or share buy backs (subject to an annual cap on contributions of £500 million before tax).

Framework Agreement Relating to the NatWest Group Pension Fund

On 28 September 2018 the company entered into a framework agreement (the ''Framework Agreement'') with the trustee (''Trustee'') of the NatWest Group Pension Fund (the ''Group Fund''). Amongst others, the Framework Agreement set out the funding contributions required to be made by the company to the Main Section of the Group Fund as follows: (i) a pre-tax payment of £2 billion that was made in the second half of 2018 and (ii) from 1 January 2020, further pre-tax contributions of up to £1.5 billion in aggregate linked to the making of future distributions to NatWest Group shareholders including ordinary and special dividends and/or share buy backs (subject to an annual cap on contributions of £471 million before tax). Pursuant to funding requirements in the Framework Agreement, the company made contributions to the Main Section of the Group Fund in an aggregate amount of £500m in 2021 and £500m in 2022.

On 6 February 2023, the company and the Trustee entered into an amendment to the Framework Agreement, a supplemental framework agreement and a revised Schedule of Contributions to, among others, restructure the requirement to make a distribution-linked contribution to the Main Section of the Group Fund of up to £500 million (before tax) in 2023. In place of this requirement, the company and the Trustee agreed to establish a bankruptcy remote reservoir trust to hold assets with a value equivalent to £471 million under the continuing control of the company. These assets would become transferrable to the Main Section of the Group Fund in the event that specified payment triggers, reflecting a funding requirement, were met in two consecutive financial years.

Shareholder information

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Financial calendar

Dividends

Payment dates	
Cumulative preference shares	31 May and 29 December 2023
Ordinary shares	2 May 2023
Ex dividend date	
Cumulative preference shares	4 May and 30 November 2023
Ordinary shares	16 March 2023
Record date	
Cumulative preference shares	5 May and 1 December 2023
Ordinary shares	17 March 2023
Annual General Meeting	25 April 2023
Interim results	28 July 2023

Shareholder enquiries

You can check your shareholdings in the company by visiting the Shareholder centre section of our website, www.natwestgroup.com and click the 'Accessing your shareholding online' tab. You will need the shareholder reference number printed on your share certificate or dividend confirmation statement to access this information. You can also view any outstanding payments, update bank account and address details and download various forms.

NatWest Group is committed to reducing its impact on the environment. You can choose to receive your shareholder communications electronically via the 'Sign up for e-comms' tab and you will receive an email notification when documents become available to view on our website.

You can also check your shareholding by contacting our Registrar:

Computershare Investor Services PLC
The Pavilions
Bridgewater Road
Bristol BS99 6ZZ
Telephone: +44 (0)370 702 0135
Website: www-uk.computershare.com/investor/

Braille and audio Strategic report with additional information

Shareholders requiring a Braille or audio version of the Strategic report with additional information should contact the Registrar on +44 (0)370 702 0135.

ShareGift

The company is aware that shareholders who hold a small number of shares may be retaining these shares because dealing costs make it uneconomical to dispose of them. ShareGift, is a free charity share donation service operated by The Orr Mackintosh Foundation (registered charity 1052686) to enable shareholders to donate shares to charity.

If you are a UK taxpayer, donating your shares in this way will not give rise to either a gain or a loss for UK capital gains tax purposes. You may be able to claim UK income tax relief on gifted shares and can do so in various ways. Further information can be obtained from HM Revenue & Customs.

Should you wish to donate your shares to charity please contact ShareGift for further information:

ShareGift, The Orr Mackintosh Foundation
67/68 Jermyn Street, London, SW1Y 6NY
Telephone: +44 (0)20 7930 3737
Website: www.sharegift.org

Share and bond scams

Share and bond scams are often run from 'boiler rooms' where fraudsters cold-call investors, offering them worthless, overpriced or even non-existent shares or bonds.

They use increasingly sophisticated tactics to approach investors, offering to buy or sell shares, often pressuring investors to make a quick decision or miss out on the deal. Contact can also be in the form of email, post or word of mouth. Scams are sometimes advertised in newspapers, magazines or online as genuine investment opportunities and may offer free gifts or discounts on dealing charges.

Scammers will request money upfront, as a bond or other form of security, but victims are often left out of pocket, sometimes losing their savings or even their family home. Even seasoned investors have been caught out by scams.

Clone firms

A 'clone firm' uses the name, firm registration number (FRN) and address of a firm or individual who is FCA authorised. The scammer may claim that the genuine firm's contact details on the FCA Register (Register) are out of date and then use their own details, or copy the website of an authorised firm, making subtle changes such as the phone number. They may claim to be an overseas firm, which won't always have full contact and website details listed on the Register.

How to protect yourself

Always be wary if you're contacted out of the blue, pressured to invest quickly, or promised returns that sound too good to be true. FCA authorised firms are unlikely to contact you unexpectedly with an offer to buy or sell shares or bonds.

Please do not give any personal details to any caller unless you are certain that they are genuine. Check the Register to ensure the firm contacting you is authorised and also check the FCA's Warning List of firms to avoid at www.fca.org.uk/scamsmart.

Ask for their (FRN) and contact details and then contact them using the telephone number on the Register. Never use a link in an email or website from the firm offering you an investment.

It is strongly advised that you seek independent professional advice before making any investment

Report a scam

If you suspect that you have been approached by fraudsters, or have any concerns about a potential scam, report this to the FCA by contacting their Consumer Helpline on 0800 111 6768 or by using their reporting form which can be found on their website.

If you have already invested in a scam, fraudsters are likely to target you again or sell your details to other criminals. The follow-up scam may be completely separate, or may be related to the previous scam in the form of an offer to get your money back or buy back the investment on payment of a fee.

Find out more at www.fca.org.uk/consumers.

Analysis of ordinary shareholders

At 31 December 2022	Shareholdings	Number of shares millions	%
Individuals	166,331	87,164,537	0.89
Banks and nominee companies	1,729	5,183,949,912	52.97
Investment trusts	40	322,237	0.00
Insurance companies	2	2,136	0.00
Other companies	410	49,571,824	0.51
Pension trusts	18	30,765	0.00
Other corporate bodies	69	4,464,982,512	45.63
	168,599	9,786,023,923	100.00
Range of shareholdings:			
1 - 1,000	147,409	34,325,117	0.35
1,001 - 10,000	19,376	43,758,796	0.45
10,001 - 100,000	885	27,914,542	0.29
100,001 - 1,000,000	537	202,449,763	2.07
1,000,001 - 10,000,000	303	998,301,789	10.20
10,000,001 and over	89	8,479,273,916	86.64
	168,599	9,786,023,923	100.00

Trading market

ADSs representing ordinary shares

In October 2007, the company listed ADSs, each representing one ordinary share nominal value 25p each (or a right to receive one ordinary share), and evidenced by an ADR or uncertificated securities, on the NYSE under the symbol 'NWG'. With effect from 7 November 2008, the ratio of one ADS representing one ordinary share changed to one ADS representing 20 ordinary shares.

Following a sub-division and one-for-ten consolidation of NatWest Group's ordinary shares in June 2012, the ratio of one ADS representing 20 ordinary shares was adjusted to one ADS representing two ordinary shares. As at 31 December 2022, 55 million ordinary ADSs were outstanding.

At a General Meeting of the company on 25 August 2022, shareholders approved a share consolidation of the company's ordinary shares. Every 14 existing ordinary shares of £1 each in the capital of the company in issue as at 26 August 2022 were consolidated into one intermediate ordinary share of £14.00 and immediately divided into 13 new ordinary shares of £1.0769 in the capital of the company.

As a result, for each existing ADR held on the ADR Register on 26 August 2022, ADR Holders, upon cancellation of their existing ADRs, were issued and received new ADRs in the ratio of 13 new ADRs to replace each 14 existing ADRs (distributed in accordance with the Deposit Agreement after giving effect to the fees and expenses provided for therein).

The ordinary ADSs were issued pursuant to a Deposit Agreement, among the company, The Bank of New York Mellon, as depository, and all owners and holders from time to time of ordinary ADSs issued thereunder. The ordinary shares of the company are listed and traded on the London Stock Exchange under the symbol 'NWG'. All ordinary shares are deposited with the principal London office of The Bank of New York Mellon, as custodian for the depository.

Dividend history

Preference dividends

Amount per share	2022 $	2022 £	2021 £	2020 £	2019 £	2018 £
Non-cumulative preference shares of US$0.01						
-Series S (1)	—	—	—	—	—	1.14
-Series U (1)	—	—	1,835	2,602	3,800	3,475
Non-cumulative preference shares of €0.01						
-Series 1 (1)	—	—	—	—	—	44.65
-Series 2 (1)	—	—	—	—	—	65.18
-series 3 (1)	—	—	—	—	—	823
Non-cumulative preference shares of £1						
-Series 1 (2)	—	—	—	—	—	27.41

(1) Classified as equity.
(2) Classified as subordinated liabilities.

Ordinary dividends

In 2022 NatWest Group paid an interim dividend of £364 million, or 3.5p per ordinary share (2021 - £347 million, or 3.0p per ordinary share) and a special dividend of £1,750 million, or 16.8p per ordinary share. In addition, the company had announced that the directors had recommended a final dividend of £1 billion, or 10.0p per ordinary share (2021 - £844 million, or 7.5p per ordinary share) subject to shareholders' approval at the Annual General Meeting on 25 April 2023.

If approved, payment will be made on 2 May 2023 to shareholders on the register at the close of business on 17 March 2023. The ex-dividend date will be 16 March 2023.

Taxation of US Holders

The following discussion summarises certain US federal and UK tax consequences of the ownership and disposition of ordinary shares or ADSs representing ordinary shares by a beneficial owner that is a citizen or resident of the United States or that otherwise will be subject to US federal income tax on a net income basis in respect of the ordinary shares or ADSs (a "US Holder"). This summary assumes that a US Holder is holding ordinary shares or ADSs, as applicable, as capital assets. This summary does not address the tax consequences to a US Holder (i) that is resident in the UK for UK tax purposes, (ii) that carries on a trade, profession or vocation through a branch, agency or permanent establishment in the UK in connection with which their ordinary shares or ADSs are held, used or acquired, or (iii) generally, that is a corporation which alone or together with one or more associated companies, controls, directly or indirectly, 10% or more of the voting stock of the company, nor does this summary address all of the tax consequences that may be relevant to a US Holder in light of its particular circumstances, including alternative minimum tax and Medicare contribution tax consequences, as well as differing tax consequences that may apply to US Holders subject to special rules, such as certain financial institutions, dealers or traders in securities that use a mark-to-market method of tax accounting, persons holding ordinary shares or ADSs as part of a hedging transaction, straddle, wash sale, conversion transaction or integrated transaction or persons entering into a constructive sale with respect to such securities, persons whose functional currency for US federal income tax purposes is not the US dollar, persons required for US federal income tax purposes to conform the timing of income accruals to their financial statements under Section 451 of the Internal Revenue Code of 1986, as amended (the "Code"), entities classified as partnerships for US federal income tax purposes, tax-exempt entities or persons that own or are deemed to own 10% or more of the stock of the company by vote or value.

The statements and practices set forth below regarding US and UK tax laws, including the US/UK double taxation convention relating to income and capital gains which entered into force on 31 March 2003 (the "Treaty") and the US/UK double taxation convention relating to estate and gift taxes (the "Estate Taxation Treaty"), are based on those laws and practices as in force and as applied in practice on the date of this report. This summary is not exhaustive of all possible tax considerations and holders are advised to satisfy themselves as to the overall tax consequences, including specifically the consequences under US federal, state, local and other laws, and possible changes in taxation law, of the acquisition, ownership and disposition of ordinary shares or ADSs by consulting their own tax advisers.

The following discussion assumes that the company was not a passive foreign investment company for the taxable year ended 31 December 2022 - see 'Passive Foreign Investment Company (PFIC) considerations' on page 159.

Ordinary shares and ADSs

Taxation of dividends

For the purposes of the Treaty, the Estate Taxation Treaty and the Code, US Holders of ADSs should be treated as owners of the ordinary shares underlying such ADSs.

The company is not required to withhold UK tax at source from dividend payments it makes or from any amount (including any amounts in respect of accrued dividends) distributed by the company. US Holders who are not resident in the UK and who do not carry on a trade, profession or vocation in the UK through a branch, agency or permanent establishment in connection with which their ordinary shares or ADSs are held, used or acquired will not be subject to UK tax in respect of any dividends received on the shares or ADSs.

Distributions by the company (other than certain pro-rata distributions of ordinary shares or rights to receive such shares) will constitute foreign source dividend income for US federal income tax purposes to the extent paid out of the current or accumulated earnings and profits of the company, as determined under US federal income tax principles. Because the company does not maintain calculations of its earnings and profits under US federal income tax principles, it is expected that distributions will be reported to US Holders as dividends. Payments will not be eligible for the dividends-received deduction generally allowed to corporate US holders.

Subject to applicable limitations that vary depending upon a US Holder's particular circumstances, dividends paid to certain non-corporate US Holders may be taxable at the favourable rates applicable to long-term capital gain. Non-corporate US Holders should consult their tax advisers to determine whether they are subject to any special rules that limit their ability to be taxed at these favourable rates.

Dividends will be included in a US Holder's income on the date of the US Holder's (or in the case of ADSs, the depositary's) receipt of the dividend. The amount of any dividend paid in pounds sterling to be included in income by a US Holder will be the US dollar amount calculated by reference to the relevant exchange rate in effect on the date of such receipt regardless of whether the payment is in fact converted into US dollars. If the dividend is converted into US dollars on the date of receipt, the US Holder generally should not be required to recognise foreign currency gain or loss in respect of the dividend income. If the amount of such dividend is converted into US dollars after the date of receipt, the US Holder may have foreign currency gain or loss.

Taxation of Capital Gains

A US Holder that is not resident in the UK will not normally be liable for UK tax on capital gains realised on the disposal of an ordinary share or ADS unless at the time of the disposal, in the case of a corporate US Holder, such US Holder carries on a trade in the UK through a permanent establishment or, in the case of any other US Holder, such US Holder carries on a trade, profession or vocation in the UK through a branch or agency and, in each case, such ordinary share ADS is or has been used, held or acquired by or for the purposes of such trade (or profession or vocation), or carried on through such permanent establishment, branch or agency. Special rules apply to individuals who are temporarily not resident in the UK.

A US Holder will, upon the sale or other disposition of an ordinary share or ADS, generally recognise capital gain or loss for US federal income tax purposes in an amount equal to the difference between the amount realised and the US Holder's tax basis in such share or ADS. This capital gain or loss will be long-term capital gain or loss if the US Holder held the share or ADS so sold or disposed of redeemed for more than one year. The deductibility of capital losses is subject to limitations.

A US Holder who is liable for both UK and US tax on a gain recognised on the disposal of an ordinary share or ADS should consult its tax adviser regarding the credibility or deductibility of such UK tax for US federal income tax purposes.

Estate and gift tax

Subject to the discussion of the Estate Tax Treaty in the following paragraph, ordinary shares or ADSs beneficially owned by an individual may be subject to UK inheritance tax (subject to exemptions and reliefs) on the death of the individual or in certain circumstances, if such shares or ADSs are the subject of a gift (including a transfer at less than market value) by such individual. Inheritance tax is not generally chargeable on gifts to individuals made more than seven years before the death of the donor. Ordinary shares or ADSs held by the trustees of a settlement may also be subject to UK inheritance tax. Special rules apply to such settlements.

An ordinary share or a ADS beneficially owned by an individual, whose domicile is determined to be the United States for purposes of the Estate Tax Treaty and who is not a national of the UK, will not be subject to UK inheritance tax on the individual's death or on a lifetime transfer of such share or ADS, except in certain cases where the share or ADS (i) is comprised in a settlement (unless, at the time of the settlement, the settlor was domiciled in the United States and was not a national of the UK); (ii) is part of the business property of a UK permanent establishment of an enterprise; or (iii) pertains to a UK fixed base of an individual used for the performance of independent personal services.

The Estate Tax Treaty generally provides a credit against US federal estate or gift tax liability for the amount of any tax paid in the UK in a case where the ordinary share or ADS is subject to both UK inheritance tax and US federal estate or gift tax.

UK stamp duty and stamp duty reserve tax (SDRT)

The following is a summary of the UK stamp duty and SDRT consequences of transferring an ADS (otherwise than to the custodian on cancellation of the ADS) or of transferring an ordinary share. A transfer of an ADS executed and retained in the United States will not give rise to a liability to pay stamp duty and an agreement to transfer an ADS through the facilities of DTC will not give rise to SDRT (provided that DTC has not made an election under section 97A of the UK Finance Act 1986). Stamp duty or SDRT will normally be payable on or in respect of transfers of ordinary shares and accordingly any holder that acquires or intends to acquire ordinary shares is advised to consult its own tax adviser in relation to stamp duty and SDRT.

Any UK stamp duty or SDRT imposed upon transfers of ordinary shares will not be creditable for US federal income tax purposes. US Holders should consult their tax advisers regarding whether any such UK stamp duty or SDRT may be deductible or reduce the amount of gain (or increase the amount of loss) recognized upon a sale or other disposition of ordinary share.

Passive Foreign Investment Company (PFIC) considerations

In general, a foreign corporation will be a PFIC for any taxable year in which, after taking into account the income and assets of the corporation and certain subsidiaries pursuant to applicable 'look-through rules', either (i) at least 75% of its gross income is 'passive income' or (ii) at least 50% of the average value of its assets (generally determined on a quarterly basis) is attributable to assets that produce passive income or are held for the production of passive income. The company does not believe that it was a PFIC for its 2022 taxable year. Although interest income is generally passive income a special rule (in proposed Treasury regulations that taxpayers rely on pending finalization) allows banks to treat their banking business income as non-passive. To qualify for this rule, a bank must satisfy certain requirements regarding its licensing and activities. The company's possible status as a PFIC is determined annually, however, and may be subject to change if the company fails to qualify under this special rule for any year in which a US Holder owned ordinary shares, ordinary ADSs or preference ADSs. In addition, no assurance can be given that the proposed Treasury regulations will be finalized in their current form.

If the company is treated as a PFIC for any taxable year during which a US Holder will owns ordinary shares or ADSs, US Holders generally be subject to adverse US federal income tax consequences and certain reporting obligations. US Holders should consult their tax advisers as to the potential application of the PFIC rules to the ownership and disposition of the company's ordinary shares or ADSs.

Information reporting and backup withholding

Payments on, and proceeds from the sale or disposition of ordinary shares or ADSs that are made within the United States or through certain US-related financial intermediaries may be subject to information reporting and backup withholding unless (i) the US Holder is an exempt recipient or (ii) in the case of backup withholding, the US Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding. The amount of any backup withholding from a payment to a US Holder will be allowed as a credit against the US Holder's US federal income tax liability and may entitle it to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

Foreign financial assets reporting

Certain US Holders who are individuals (and certain entities controlled by individuals) may be required to report information relating to the company's securities, of non-US. accounts through which such securities are held. US Holders are urged to consult their tax advisers regarding the application of these rules in their particular circumstances.

Exchange controls

The company has been advised that there are currently no UK laws, decrees or regulations which would prevent the import or export of capital, including the availability of cash or cash equivalents for use by the Group, or the remittance of dividends, interest or other payments to non-UK resident holders of the company's securities.

There are no restrictions under the Articles of Association of the company or under UK law, as currently in effect, which limit the right of non-UK resident owners to hold or, when entitled to vote, freely to vote the company's securities.

Memorandum and Articles of Association

The company's Memorandum and Articles of Association as in effect at the date of this Annual Report are registered with the Registrar of Companies of Scotland.

The following information is a summary of certain terms of the company's Memorandum of Association (the "Memorandum") and Articles of Association (the "Articles") as in effect at the date of this Annual Report on Form 20-F and certain relevant provisions of the Companies Act 2006 (the "2006 Act") where appropriate and as relevant to the holders of any class of share. In 2020, the Articles were updated primarily to bring clearer language into the Articles to better reflect modern best practice. A summary of the principal changes is outlined below:

Shares

– Under the previous Articles, the Company had the ability to issue 'share warrants to bearer' (bearer shares). Changes under The Small Business, Enterprise and Employment Act 2015 abolished bearer shares, therefore any articles associated with such were removed.

– Since the adoption of the previous Articles, the issued share capital of the Company has been streamlined and a number of share classes referred to within the previous Articles were no longer in issue. All unnecessary references to redundant classes of shares and their respective rights were removed.

General Meetings

– The Articles were amended to allow the Company to hold 'hybrid' general meetings to enable members to attend and participate in the business of the meeting by attending a satellite physical location or by means of an electronic facility. This is not intended to permit the Company to hold general meetings wholly by electronic means and the Company will remain able to hold physical general meetings.

The Board

– The wording relating to the circumstances in which a Director may be required to vacate office due to mental incapacity was updated to reflect modern market practice. To better reflect current market practice, the Articles were extended to permit that Directors may signal their agreement with a decision of the board by electronic means.

Dividends

– The provisions enabling the Directors to pay interim dividends were clarified and simplified in accordance with modern market practice and these now protect the Directors from claims in respect of such dividends where they have acted in good faith. The provisions were clarified on the payment of dividends electronically, in line with market practice and reflecting that, increasingly, cheques and warrants are no longer the Company's primary methods for paying dividends.

Communications by the Company

– The wording was updated to reflect current practice in respect of the Company's correspondence with shareholders, including permitting correspondence with untraced shareholders by email, and clarifying address requirements for overseas shareholders.

The following summary description is qualified in its entirety by reference to the terms and provisions of the Memorandum and Articles (and, in the case of the summary description of the non-cumulative preference shares, by reference to the terms of issue of those shares determined by the Directors pursuant to the Articles prior to allotment). The Memorandum and Articles are registered with the Registrar of Companies of Scotland. Holders of any class of share are encouraged to read the full Memorandum and Articles, which have been filed as an exhibit to this Annual Report on Form 20-F. The company's Memorandum and Articles of Association as in effect at the date of this Annual Report are registered with the Registrar of Companies of Scotland. The current Articles were adopted on 25 August 2022 to amend the nominal value and voting rights of the ordinary shares of the Company following the share consolidation.

Incorporation and registration

The company was incorporated and registered in Scotland under the Companies Act 1948 as a limited company on 25 March 1968 under the name National and Commercial Banking Group Limited. On 3 September 1979 the name was changed to The Royal Bank of Scotland Group Limited and on 10 March 1982, it changed its name to its present name and was registered under the Companies Acts 1948 to 1980 as a public company with limited liability. The company is registered under Company No. SC45551. The Royal Bank of Scotland Group plc was renamed NatWest Group plc on 22 July 2020.

Purpose and objects

The 2006 Act greatly reduces the constitutional significance of a company's memorandum of association and provides that a memorandum of association will record only the names of the subscribers and the number of shares each subscriber has agreed to take in the company. The 2006 Act further states that, unless a company's articles provide otherwise, a company's objects are unrestricted and abolishes the need for companies to have objects clauses. The company removed its objects clause together with all other provisions of its memorandum of association which by virtue of the 2006 Act were treated as forming part of the company's articles. The articles of association contain an express statement regarding the limited liability of the shareholders.

Directors

At each annual general meeting of the company, any Director appointed since the last annual general meeting and any Directors who were not appointed at one of the preceding two annual general meetings shall retire from office and may offer themselves for re-election by the members. Directors may be appointed by the company by ordinary resolution or by the Board. A director appointed by the Board holds office only until the next annual general meeting, whereupon he will be eligible for re-election.

Unless and until otherwise determined by ordinary resolution, the directors (other than alternate directors) shall be not more than twenty five. There is no stipulation in the Articles regarding a minimum number of directors; under the 2006 Act, and in the absence of express provision, the minimum number is two.

Directors' interests

A director shall not vote at a meeting of the Board or a Committee of the Board on any resolution of the Board concerning a matter in which he has an interest (otherwise than by virtue of his interest in shares, debentures or other securities of, or otherwise in or through, the company) which (together with any interest of any person connected with him) is, to his knowledge, material unless his interests arises only because the resolution relates to one or more of the following matters:

(i) the giving of any security or indemnity to him pursuant to the Articles or in respect of money lent, or obligations incurred, by him at the request of, or for the benefit of, the company or any of its subsidiary undertakings;

(ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the company or any of its subsidiary undertakings for which he has assumed responsibility (in whole or in part) under a guarantee or indemnity or by the giving of security;

(iii) a proposal concerning an offer of shares, debentures or other securities of the company, or any of its subsidiary undertakings, for subscription or purchase, in which offer he is, or may be, entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate;

(iv) any proposal concerning any other body corporate in which he is interested, directly or indirectly, whether as an officer or shareholder or otherwise, provided that he is not the holder of shares representing one per cent or more of any class of the equity share capital of such body corporate;

(v) any proposal concerning the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme or employees' share scheme which relates both to directors and employees of the company or a subsidiary of the company and does not provide any privilege or advantage in respect of any director which it does not accord to the employees to which the fund or scheme relates;

(vi) a contract or arrangement for the benefit of the employees of the company or any of its subsidiary undertakings which does not accord him any privilege or advantage not generally accorded to the employees to whom the contract or arrangement relates; and

(vii) a proposal concerning any insurance which the company proposes to purchase and/or maintain for the benefit of any directors or for persons who include directors of the company.

Under the 2006 Act, a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the company's interests.

The 2006 Act allows directors of public companies, where appropriate, to authorise conflicts and potential conflicts where the articles of association contain a provision to this effect. The 2006 Act also allows the articles of association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty.

Clause 91 of the Articles, gives the directors authority to authorise any matter which would or might otherwise constitute or give rise to a breach of the duty of a director under the 2006 Act to avoid a situation in which he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the company.

Authorisation of any matter pursuant to Clause 91 must be approved in accordance with normal board procedures by directors who have no interest in the matter being considered. In taking the decision, the directors must act in a way they consider, in good faith, will be most likely to promote the company's success.

Any authorisation of a matter may be given on or subject to such conditions or limitations as the directors determine, whether at the time of authorisation or subsequently, including providing for the exclusion of the interested directors from the receipt of information or participation in discussion relating to the matter authorised by the directors and providing that interested directors in receipt of confidential information from a third party are not obliged to disclose such information to the company or use the information in relation to the company's affairs. Any authorisation may be terminated by the directors at any time.

A director is not, except as otherwise agreed by him, accountable to the company for any benefit which he, or a person connected with him, derives from any matter authorised by the directors and any contract, transaction or arrangement relating to such matter is not liable to be avoided on the grounds of such benefit.

Directors' power to allot securities

In line with market practice, the Articles provide that the authority to allot shares and the disapplication of pre-emption rights will not be set out in the Articles, but subject to resolutions passed at the company's annual general meeting to obtain these authorities on an annual basis.

Borrowing powers

The directors may exercise all the powers of the company to borrow money and to mortgage or charge its undertaking, property and uncalled capital and to issue debentures and other securities, whether outright or as collateral security for any debt, guarantee, liability or obligation of the company, or of any third party.

Qualifying shareholding

Directors are not required to hold any shares of the company by way of qualification.

Classes of shares

The company has issued and outstanding the following two general classes of shares, namely ordinary shares, and cumulative preference shares, to which the provisions set forth below apply.

Dividends

General

Subject to the provisions of the 2006 Act and Clause 122 of the Articles, the company may, by ordinary resolution, declare dividends on ordinary shares save that no dividend shall be payable except out of profits available for distribution, or in excess of the amount recommended by the Board or in contravention of the special rights attaching to any share. Any dividend which has remained unclaimed for 12 years from the date of declaration shall be forfeited and shall revert to the company.

Dividends may be paid by such method as the Directors, in their absolute discretion may decide, and may include direct debit, bank transfer and electronic funds transfer, cheque, warrant or other financial instrument. The company may cease sending dividend warrants and cheques by post or otherwise to a member if such instruments have been returned undelivered to, or left uncashed by, that member on at least two consecutive occasions, or, following one such occasion, reasonable enquiries have failed to establish any new address or account of the registered holder. The company may resume sending warrants and cheques if the holder requests such recommencement in writing.

Preference shares

Each cumulative preference share confers the right to a fixed cumulative preferential dividend payable half-yearly. The rate of such dividend and the date of payment thereof, together with the terms and conditions of the dividend, are as may be determined by the directors prior to allotment. Cumulative preference share dividends are paid in priority to any dividend on any other class of share.

With effect from 19 April 2011, subject to existing class rights of shareholders, new preference shares can be issued with such rights and restrictions as the directors may determine.

Distribution of assets on liquidation

Cumulative preference shares

In the event of a return of capital on a winding-up or otherwise, the holders of cumulative preference shares are entitled to receive out of the surplus assets of the company available for distribution amongst the members (i) in priority to the holders of the non-cumulative preference shares and any other shares ranking pari passu therewith, the arrears of any fixed dividends including the amount of any dividend due for a payment after the date of commencement of any winding-up or liquidation but which is payable in respect of a half-year period ending on or before such date and (ii) pari passu with the holders of the non-cumulative preference shares and any other shares ranking pari passu therewith, the amount paid up or credited as paid up on such shares together with any premium.

General

On a winding-up of the company, the liquidator may, with the authority of any extraordinary resolution and any other sanction required by the Insolvency Act 1986 and subject to the rights attaching to any class of shares after payment of all liabilities, including the payment to holders of preference shares, divide amongst the members in specie or kind the whole or any part of the assets of the company or vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members and may determine the scope and terms of those trusts. No member shall be compelled to accept any assets on which there is a liability.

Voting Rights

General

Subject to any rights or restrictions as to voting attaching to any shares or class of shares, on a show of hands every member who is present in person or by proxy at a general meeting shall have one vote (except that a proxy who is appointed by more than one member has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution) and on a poll every holder of ordinary shares present in person or by proxy and entitled to vote, shall have four votes for every share held, and holders of cumulative preference shares shall have one vote for each 25p nominal amount held. No member shall, unless the directors otherwise determine, be entitled to vote at a general meeting or at a separate meeting of the holders of shares in the capital of the company, either in person or by proxy, in respect of any share held by him unless all monies presently payable by him in respect of that share have been paid. There is no obligation on the company to check and ensure that a proxy is voting at a general meeting in accordance with the voting directions provided by the appointing member. The chairman of a general meeting does not have a casting vote in the event of an equality of votes, as this is not permitted under the 2006 Act. The quorum required for a meeting of members is not less than five members present in person and entitled to vote.

If a meeting is adjourned because of the lack of a quorum, the members present in person or by proxy and entitled to vote will constitute a quorum at the adjourned meeting.

Meetings are convened upon written notice of not less than 21 days in respect of annual general meetings of members and not less than 14 days in respect of other meetings of members subject to certain conditions. An adjourned meeting may be called at shorter notice than applied to the original meeting, but where a meeting is adjourned for lack of quorum only if the adjourned meeting is held at least ten days after the original meeting and does not include any new business.

Cumulative preference shares

At a general meeting of the company, every holder of a cumulative preference share who is present in person or by proxy shall be entitled to one vote on a show of hands and, on a poll, every person who is present in person or by proxy shall have one vote for each 25 pence in nominal amount of shares held. No member shall be entitled to vote any share in person or by proxy unless all moneys owed in respect of that share have been paid.

Redemption
Except as set forth in the following paragraph, unless the directors determine, prior to allotment of any particular series of non-cumulative preference shares, that such series shall be non-redeemable, the preference shares will be redeemable at the option of the company on any date which (subject to certain exceptions described in the terms of such shares) falls no earlier than such date (if any) as may be fixed by the directors, prior to allotment of such shares. On redemption, there shall be paid on each non-cumulative preference share the aggregate of its nominal amount together with any premium paid on issue, where applicable a redemption premium and accruals of dividend.

If the company wishes to issue redeemable shares, the Directors are authorised to determine the terms and manner of redemption.

Purchase

General
Under the 2006 Act a company requires shareholder authority to purchase its own shares, consolidate and sub-divide its shares and reduce its share capital.

Whenever non-cumulative preference shares are issued in the future the Articles have no restriction on the maximum purchase price payable by the company unless such restriction is expressly applied by the directors in relation to an issuance of non-cumulative preference shares.

Changes in share capital and variation of rights
Subject to the provisions of the 2006 Act and without prejudice to any rights attached to any existing shares or class of shares, any share may be issued with such rights or restrictions as the company may by ordinary resolution determine or, subject to and in default of such determination, as the Board shall determine. Subject to the provisions of the 2006 Act, the company may issue shares which are, or at the option of the company or the holder are liable, to be redeemed. Subject to the provisions of the 2006 Act and the Articles, unissued shares are at the disposal of the Board.

The company may by ordinary resolution: increase its share capital; consolidate and divide all or any of its share capital into shares of larger amount than its existing shares; subject to the provisions of the 2006 Act, subdivide its shares, or any of them, into shares of smaller amount than is fixed by the Memorandum; or cancel any shares which have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled.

Subject to the provisions of the 2006 Act, if at any time the capital of the company is divided into different classes of shares, the rights attached to any class of shares may (unless further conditions are provided by the terms of issue of the shares of that class) be varied or abrogated, whether or not the company is being wound up, either with the consent in writing of the holders of three-quarters in-nominal value of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate general meeting of holders of the shares of the class (but not otherwise). To any such separate general meeting the provision of the Articles relating to general meeting s will apply, save that:

(i) if at any adjourned meeting of such holders a quorum as defined above is not present, two people who hold shares of the class, or their proxies, are a quorum; and

(ii) any such holder present in person or by proxy may demand a poll.

The rights attaching to any class of shares having preferential rights are not, unless otherwise expressly provided by the terms of issue thereof, deemed to be varied by the creation or issue of further shares ranking, as regards participation in the profits or assets of the company, pari passu therewith, but in no respect in priority thereto.

Disclosure of interests in shares
The 2006 Act gives the company the power to require persons who it believes to be, or have been within the previous three years, interested in its shares, to disclose prescribed particulars of those interests. Failure to supply the information or supplying a statement which is materially false may lead to the Board imposing restrictions upon the relevant shares. The restrictions available are the suspension of voting or other rights conferred by membership in relation to meetings of the company in respect of the relevant shares and, additionally, in the case of a shareholding representing at least 0.25 per cent of the class of shares concerned, the withholding of payment of dividends on, and the restriction of transfers of, the relevant shares.

Limitations on rights to own shares
There are no limitations imposed by UK law or the Memorandum and Articles on the right of non-residents or foreign persons to hold or vote the company's shares other than the limitations that would generally apply to all of the company's shareholders.

Members resident abroad
Members with registered addresses outside the United Kingdom are not entitled to receive notices from the company unless they have given the company an address within the United Kingdom at which such notices may be served.

Sending notices and other documents to shareholders
The company may communicate with members by electronic and/or website communications. A member whose registered address is not within the United Kingdom shall not be entitled to receive any notice from the Company unless he gives the Company a postal address within the United Kingdom at which notices may be given to him.

Documents on display

Documents concerning the company may be inspected at 36 St Andrew Square, Edinburgh, EH2 2YB.

Executive directors' service contracts and copies of directors' indemnities granted by the company in terms of section 236 of the Companies Act 2006 may be inspected at the company's office at Gogarburn, Edinburgh, EH12 1HQ (telephone +44 (0)131 556 8555).

We are subject to the informational requirements of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith, we file reports and other information with the SEC. The SEC's website, at http://www.sec.gov, and our website, at http://www.natwestgroup.com, contain reports and other information in electronic form that we have filed. Except for SEC filings incorporated by reference in this prospectus supplement and the accompanying prospectus, none of the information on or that can be access through our website is part of this prospectus supplement or the accompanying prospectus. You may also request a copy of any filings referred to below (other than exhibits not specifically incorporated by reference) at no cost, by contacting us at NatWest Group plc, Gogarburn, P.O. Box 1000, Edinburgh EH12 1HQ, Scotland. Telephone +44 (0) 131 556 8555.

Incorporation and registration

The company was incorporated and registered in Scotland under the Companies Act 1948 as a limited company on 25 March 1968 under the name National and Commercial Banking Group Limited, and changed its name to The Royal Bank of Scotland Group Limited on 3 September 1979. On 10 March 1982 it was re-registered under the Companies Acts 1948 to 1980 as a public company with limited liability. The company is registered under Company No. SC45551. The Royal Bank of Scotland Group plc was renamed NatWest Group plc on 22 July 2020.

Important addresses

Shareholder enquiries Registrar
Computershare Investor Services PLC
The Pavilions
Bridgwater Road Bristol BS99 6ZZ
Telephone: +44 (0)370 702 0135
Facsimile: +44 (0)370 703 6009
Website: www-uk.computershare.com/investor/contactus

ADR Depositary Bank
BNY Mellon Shareowner Services
PO Box 505000
Louisville, KY 40233-5000

Direct Mailing for overnight packages:
BNY Mellon Shareowner Services
462 South 4th Street
Suite 1600
Louisville KY 40202

Telephone: 1-888-269-2377 (US callers – toll free)
Telephone: +1 201 680 6825 (International)
Email: shrrelations@cpushareownerservices.com
Website: www.mybnymdr.com

Corporate Governance
NatWest Group plc
PO Box 1000
Gogarburn Edinburgh EH12 1HQ
Telephone: +44 (0)370 702 0135

Investor Relations
250 Bishopsgate London EC2M 4AA
Telephone: +44 (0)207 672 1758
Facsimile: +44 (0)207 672 1801
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National Westminster Bank Plc
250 Bishopsgate, London, EC2M 4AA, England

Ulster Bank Limited
11-16 Donegall Square East,
Belfast, Co Antrim, BT1 5UB, Northern Ireland

Ulster Bank Ireland DAC
Ulster Bank Head Office, Block B,
Central Park, Leopardstown
Dublin 18, D18 N153

NatWest Markets Group Holdings Corp.
251 Little Falls Drive
Wilmington, DE, 19808

Coutts & Company
440 Strand, London WC2R 0QS, England

The Royal Bank of Scotland International Limited
Royal Bank House, 71 Bath Street
St Helier, JE4 8PJ

Exhibit Index

1.1	Memorandum and Articles of Association of NatWest Group plc
2.1	Form of Amended and Restated Deposit Agreement among NatWest Group plc, The Bank of New York and all owners and holders from time to time of American Depositary Shares issued thereunder, including the Form of the American Depositary Receipt (previously filed in preliminary form as Exhibit 1 to the Registration Statement on Form F-6 filed on October 6, 2020, Registration No. 333-144756)
2.2	Form of Deposit Agreement among NatWest Group plc, The Bank of New York and all holders from time to time of American Depositary Receipts issued thereunder, including the Form of the American Depositary Receipt (previously filed in preliminary form as Exhibit 1 to the Registration Statement on Form F-6 filed on August 26, 2005, Registration No. 333-127687)
2.3	NatWest Group plc is not party to any single instrument relating to long-term debt pursuant to which a total amount of securities exceeding 10% of the Group's total assets (on a consolidated basis) is authorized to be issued. NatWest Group plc hereby agrees to furnish to the Securities and Exchange Commission (the "Commission"), upon its request, a copy of any instrument defining the rights of holders of its long-term debt or the rights of holders of the long-term debt of any of its subsidiaries for which consolidated or unconsolidated financial statements are required to be filed with the Commission
2.4	Description of Securities Registered under Section 12 of the Exchange Act
4.1	Service agreement for Alison Rose-Slade, Group Chief Executive, dated 31 October 2019 (previously filed and incorporated by reference to Exhibit 4.1 to the Group's Annual Report on Form 20-F for the fiscal year ended 31 December 2019 (file No. 1-10306))
4.2	Service Agreement for Katie Murray, Chief Financial Officer, dated 1 February 2019 (previously filed and incorporated by reference to Exhibit 4.2 to the Group's Annual Report on Form 20-F for the fiscal year ended 31 December 2018 (file No. 1-10306))
4.3	Letter of Appointment for Howard Davies, Non-Executive Director and Chairman, dated 30 May 2018 (previously filed and incorporated by reference to Exhibit 4.3 to the Group's Annual Report on Form 20-F for the fiscal year ended 31 December 2018 (file No. 1-10306))
4.4	Letter of Appointment for Michael Rogers, Non-Executive Director, dated 30 May 2018 (previously filed and incorporated by reference to Exhibit 4.4 to the Group's Annual Report on Form 20-F for the fiscal year ended 31 December 2018 (file No. 1-10306))
4.5	Letter of Appointment for Frank Dangeard, Non-Executive Director, dated 30 May 2018 (previously filed and incorporated by reference to Exhibit 4.5 to the Group's Annual Report on Form 20-F for the fiscal year ended 31 December 2018 (file No. 1-10306))
4.6	Letter of Appointment for Mark Seligman, Non-Executive Director, dated 30 May 2018 (previously filed and incorporated by reference to Exhibit 4.6 to the Group's Annual Report on Form 20-F for the fiscal year ended 31 December 2018 (file No. 1-10306))
4.7	Letter of Appointment for Dr. Lena Wilson, Non-Executive Director, dated 30 May 2018 (previously filed and incorporated by reference to Exhibit 4.7 to the Group's Annual Report on Form 20-F for the fiscal year ended 31 December 2018 (file No. 1-10306))
4.8	Letter of Appointment for Patrick Flynn, Non-Executive Director, dated 26 April 2018 (previously filed and incorporated by reference to Exhibit 4.8 to the Group's Annual Report on Form 20-F for the fiscal year ended 31 December 2018 (file No. 1-10306))
4.9	Letter of Appointment for Morten Friis, Non-Executive Director, dated 30 May 2018 (previously filed and incorporated by reference to Exhibit 4.11 to the Group's Annual Report on Form 20-F for the fiscal year ended 31 December 2018 (file No. 1-10306))
4.10	Letter of Appointment for Robert Gillespie, Non-Executive Director, dated 30 May 2018 (previously filed and incorporated by reference to Exhibit 4.12 to the Group's Annual Report on Form 20-F for the fiscal year ended 31 December 2018 (file No. 1-10306))
4.11	Letter of Appointment for Yasmin Jetha, Non-Executive Director, dated 30 March 2020 (previously filed and incorporated by reference to Exhibit 4.14 to the Group's Annual Report on Form 20-F for the fiscal year ended 31 December 2020 (file No. 1-10306))
4.12	Letter of Appointment for Roisin Donnelly, Non-Executive Director, dated 30 September 2022
4.13	Standard Terms of Appointment for Non-Executive Directors
4.14	Form of Deed of Indemnity for Directors (previously filed and incorporated by reference to Exhibit 4.16 to the Group's Annual Report on Form 20-F for the fiscal year ended 31 December 2020 (file No. 1-10306))
4.15	Memorandum of Understanding between National Westminster Bank Plc and RBS Pension Trustee Limited, dated 26 January 2016 (previously filed and incorporated by reference to Exhibit 4.6 to the Group's Annual Report on Form 20-F for the fiscal year ended 31 December 2015 (File No. 1-10306))
4.16	Framework Agreement dated 28 September 2018 relating to the Royal Bank of Scotland Group Pension Fund (previously filed and incorporated by reference to Exhibit 4.16 to the Group's Annual Report on Form 20-F for the fiscal year ended 31 December 2018 (file No. 1-10306))
4.17[2]	Acquisition and contingent capital agreement dated 26 November 2009 among NatWest Group plc and The Commissioners of Her Majesty's Treasury
4.18[2]	State Aid Cost Reimbursement Deed dated 26 November 2009 among The Commissioners of Her Majesty's Treasury and NatWest Group plc
4.19[1]	Framework and State Aid Deed dated 25 April 2018, among The Commissioners of Her Majesty's Treasury, Banking Competition Remedies Limited and NatWest Group plc (previously filed and incorporated by reference to Exhibit 4.19 to the Group's Annual Report on Form 20-F for the fiscal year ended 31 December 2018 (file No. 1-10306))
4.20[1]	Trust Deed dated 25 April 2018, between the Banking Competition Remedies Limited and NatWest Group plc (previously filed and incorporated by reference to Exhibit 4.20 to the Group's Annual Report on Form 20-F for the fiscal year ended 31 December 2018 (file No. 1-10306))
4.21[1]	Deed of Indemnity dated 25 April 2018, between The Commissioners of Her Majesty's Treasury and NatWest Group plc (previously filed and incorporated by reference to Exhibit 4.21 to the Group's Annual Report on Form 20-F for the fiscal year ended 31 December 2018 (file No. 1-10306))
4.22	Relationship Agreement, dated 7 November 2014 among Her Majesty's Treasury and NatWest Group plc (Previously filed and incorporated by reference to Exhibit 4.12 to the Group's Annual Report on Form 20-F for the fiscal year ended 31 December 2014 (File No. 1-10306))
4.23	Share Purchase Deed dated 7 February 2019 between NatWest Group plc and The Commissioners of Her Majesty's Treasury (previously filed and incorporated by reference to Exhibit 4.23 to the Group's Annual Report on Form 20-F for the fiscal year ended 31 December 2018 (file No. 1-10306))
4.24[2]	Framework Agreement dated 6 February 2023 between National Westminster Bank Plc and NatWest Pension Trustee Limited
4.25	Deed of Amendment to the 28 September 2018 Framework Agreement dated 6 February 2023 between National Westminster Bank Plc and NatWest Pension Trustee Limited
8.1	Principal subsidiaries of NatWest Group plc
12.1	CEO certification required by Rule 13a-14(a)
12.2	CFO certification required by Rule 13a-14(a)
13.1	Certification required by Rule 13a-14(b)
15.1	Consent of independent registered public accounting firm (Ernst & Young LLP)

15.2	Annual Report and Form 20-F Information
1.1 INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Scheme
101.CAL	XBRL Taxonomy Extension Scheme Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Scheme Definition Linkbase
101. LAB	XBRL Taxonomy Extension Scheme Label Linkbase
101.PRE	XBRL Taxonomy Extension Scheme Presentation Linkbase

(1) Confidential treatment has been granted.
(2) Portions of this exhibit have been omitted as the Registrant has determined that (i) the omitted information is not material and (ii) the omitted information is of the type that the Registrant customarily and actually treats as private or confidential.

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

NatWest Group plc
Registrant

/s/ Katie Murray
Katie Murray
Group Chief Financial Officer
24 February 2023

Exhibit 1.1

Company No. SC045551

THE COMPANIES ACT 2006

A PUBLIC COMPANY LIMITED BY SHARES

NEW ARTICLES OF ASSOCIATION

of

NATWEST GROUP
public limited company*

Adopted by Special Resolution passed on [•]

PRELIMINARY

1. Non-application of statutory regulations

None of the relevant model articles (within the meaning of section 20 of the 2006 Act) nor the regulations contained in Table A in the Schedule to the Companies (Tables A to F) Regulations 1985 or any regulation or articles set out in any statute, or in any statutory instrument or other subordinated legislation made under any statute concerning companies shall apply to the Company.

2. Definitions and Interpretation

In the Articles (if not inconsistent with the subject or context) the words standing in the first column of the table next hereinafter contained shall bear the meanings set opposite to them respectively in the second column thereof.

Words	Meanings
"address"	Includes any number or address (including, in the case of a proxy appointment, an identification number of a participant in the relevant system) used for the purposes of sending or receiving documents or information whether by hard copy, electronic or any other means.
"Applicable Exchange Rate"	Such market rate of exchange as the Directors may consider appropriate for the purchase of any relevant Foreign Currency for Sterling or for any other Foreign Currency on such date as the Directors may consider appropriate.
"the Articles"	These Articles of Association in their present form or as from time to time altered.

* The Company (formerly known as The Royal Bank of Group Scotland plc) changed its name by resolution of the Directors on 15 July 2020 conforming with the Certificate of Incorporation on Change of Name certificate issued by the Registrar of Companies on 22 July 2020.

"Category II Non-cumulative Dollar Preference Share"	The meaning given in Article 4(D)(1).
"Certificated share"	A share which is not an uncertificated share.
"company communications provisions"	The same meaning as in Section 1143 of the 2006 Act.
"Cumulative Preference Shares"	The 5½ per cent Cumulative Preference Shares and the 11 per cent Cumulative Preference Shares.
"dealing day"	A day, other than a Saturday, Sunday or public holiday in the UK when the London Stock Exchange is open or was due to be open for trading.
"Directors"	The Board of Directors of the Company, or an authorised committee thereof.
"Dividend"	Dividend, distribution and/or bonus.
"electronic form", "electronic means" and "hard copy form"	The same respective meanings as in Section 1168 of the 2006 Act.
"Foreign Currency"	Any lawful currency other than Sterling.
"In Writing"	Written, or produced by any legible and non-transitory substitute for writing, or partly one and partly another, whether in hard copy form or electronic form.
"the London Stock Exchange"	London Stock Exchange plc.
"Month"	Calendar month.
"New Preference Shares"	The Non-cumulative Dollar Preference Shares and the Category II Non-cumulative Dollar Preference Shares (which classes of non-cumulative preference shares all rank pari passu inter se as regards participation in the profits and assets of the Company), together with any other share in the capital of the Company (other than the Cumulative Preference Shares) which is expressed to rank as regards participation in the profits or assets of the Company in some or all respects pari passu therewith.
"New Shares"	New Preference Shares or any further shares in the capital of the Company issued subsequent to the date of adoption of these Articles.
"Non-cumulative Dollar Preference Shares"	The Non-cumulative Dollar Preference Shares of US$0.01 each in the capital of the Company.
"Office"	The registered office of the Company for the time being.

"Operator"	A person approved by the Treasury as operator of a relevant system under the Uncertificated Securities Regulations.
"Ordinary Shares"	The ordinary shares in the Company.
"Paid"	Paid or credited as paid.
"Participating class"	A class of shares title to which is permitted by an Operator to be transferred by means of a relevant system.
"Relevant system"	Any computer-based system and procedures, permitted by the Uncertificated Securities Regulations and the rules of the London Stock Exchange, which enable title to units of a security to be evidenced and transferred without a written instrument and which facilitate supplementary and incidental matters and shall include, without limitation, the relevant system of which Euroclear UK & Ireland Limited is the Operator.
"Seal"	The Common Seal of the Company.
"the Statutes"	The 2006 Act and every other Act (including any orders, regulations or other subordinate legislation made under it) for the time being in force concerning companies and affecting the Company.
"Subsidiary undertaking"	A subsidiary undertaking as defined in Section 1162 of the 2006 Act.
"Transfer Office"	The place where the Register of Members is situate for the time being.
"Uncertificated share"	A share of a class which is for the time being a participating class title to which is recorded in the Register of Members as being held in uncertificated form.
"the Uncertificated Securities Regulations"	The Uncertificated Securities Regulations 2001 as amended from time to time and any provisions of or under the Statutes which supplement or replace such regulations.
"Undertaking"	An undertaking as defined in Section 1161 of the 2006 Act.
"the United Kingdom"	Great Britain and Northern Ireland.
"US$" and "Dollars"	The lawful currency for the time being of the United States of America.
"Year"	Calendar Year.
"5½ per cent Cumulative Preference Shares"	The 5½ per cent Cumulative Preference Shares of £1 each in the capital of the Company.

"11 per cent Cumulative Preference Shares"	The 11 per cent Cumulative Preference Shares of £1 each in the capital of the Company.

The word "Act" related to a particular year refers to the Companies Act of that year.

The expressions "debenture" and "debenture-holder" shall include "debenture stock" and "debenture stockholder" respectively.

The expression "Base Rate" means the Base Rate from time to time of National Westminster Bank Public Limited Company.

The expression "Secretary" shall (subject to the provisions of the Statutes) include any deputy secretary, assistant secretary and any other person appointed by the Directors to perform any of the duties of the Secretary and where two or more persons are appointed to act as joint secretaries shall include any one of those persons.

The expressions "recognised clearing house" and "recognised investment exchange" shall mean any clearing house or investment exchange (as the case may be) granted recognition under the Financial Services and Markets Act 2000.

Words denoting the singular shall include the plural and vice versa. Words denoting the masculine gender shall include the feminine gender. Words denoting persons shall include partnerships, companies and corporations.

References to any statute or statutory provision shall (if not inconsistent with the subject or context) include any statutory modification or re-enactment thereof for the time being in force, whether made before, on or after the date of adoption of the Articles.

Any words or expressions defined in the 2006 Act or the Uncertificated Securities Regulations shall (if not inconsistent with the subject or context) bear the same meaning in the Articles, save that the word "company" shall include any body corporate.

Headings and sub-headings to Articles are inserted for convenience only and shall not affect the construction of the Articles.

Where for any purpose an Ordinary Resolution of the Company is expressed to be required under the provisions of the Articles, a Special Resolution shall also be effective.

The expression "documents" shall include notices, information, notifications, certificates, reports and accounts, financial statements, forms, offer documents, documents needed for the public quotation of securities, deeds, agreements, records, circulars and cheques, warrants or orders in respect of dividends, distributions or interest, summonses, orders or other legal processes and registers.

CHANGE OF NAME

3. Change of name

The Company may change its name by resolution of the Directors.

4. Share rights

The rights as regards participation in the profits and assets of the Company attaching to the share capital of the Company shall be as specified or referred to below and in Article 4A:

(A) ***Dividend rights of cumulative preference shares***

The 11 per cent Cumulative Preference Shares and the 5½ per cent Cumulative Preference Shares shall confer the right to a fixed cumulative preferential dividend at the rate of 11 per cent and 5½ per cent per annum respectively on the amounts for the time being paid up or credited as paid up on such shares, to be paid if and so far as in the opinion of the Directors the profits of the Company justify such payments on the 31st day of May and the 31st day of December in every year in respect of the half-years ending on the last preceding day of March or September. Such dividends shall rank *pari passu* and *pro rata* with each other and shall be paid in priority to any dividend on the New Preference Shares or on any other class of share.

(B) ***Capital rights of cumulative preference shares***

On a winding up or liquidation, voluntary or otherwise the surplus assets of the Company available for distribution amongst the members shall be applied:

FIRSTLY - in paying to the holders of the 11 per cent Cumulative Preference Shares and the 5½ per cent Cumulative Preference Shares respectively the arrears (if any) of the fixed cumulative preferential dividends thereon (whether earned or declared or not and including (i) the amount of any dividend which is due for payment after the date of commencement of winding up or liquidation but which is payable in respect of a half-year period ending on or before such date and (ii) any further amount of dividend payable in respect of the period from the beginning of the half-year period then current to the date of commencement of winding up or liquidation) to the date on which repayment is made, in terms of the immediately succeeding paragraph or, if no such repayment is made, the date of payment of such arrears; and

SECONDLY - in repaying to the holders of the 11 per cent Cumulative Preference Shares and the 5½ per cent Cumulative Preference Shares respectively, the amounts paid up or credited as paid up on such shares together with a premium of 50p per share in the case of the 11 per cent Cumulative Preference Shares and of 20p per share in the case of the 5½ per cent Cumulative Preference Shares.

Any payments made to the holders of the 11 per cent Cumulative Preference Shares and the 5½ per cent Cumulative Preference Shares in terms of paragraphs FIRSTLY or SECONDLY above shall rank *pari passu* and *pro rata* with each other and (in the case of payments in terms of paragraph FIRSTLY) in priority to and (in the case of repayments in terms of paragraph SECONDLY) *pari passu* and *pro rata* with any payments to be made to the holders of the Non-cumulative Dollar Preference Shares pursuant to Article 4(C)(2) below and to the holders of any other New Preference Shares.

(C) ***Non-cumulative dollar preference shares***

(1) The Non-cumulative Dollar Preference Shares shall rank after the Cumulative Preference Shares to the extent specified in this Article 4, and shall rank *pari passu inter se* and (save as aforesaid) with the Cumulative Preference Shares and with all other New Preference Shares. They shall confer the rights and be subject to the restrictions set out in this Article 4(C) and shall also confer such further rights (not being inconsistent with the rights set out in this Article 4(C)) as may be attached by the Directors to such shares in accordance with this Article 4(C) prior to allotment. Whenever the Directors

have power under this Article to determine any of the rights attached to any of the Non-cumulative Dollar Preference Shares, the rights so determined need not be the same as those attached to the Non-cumulative Dollar Preference Shares then allotted or in issue. The Non-cumulative Dollar Preference Shares may be issued in one or more separate series, and each series shall be identified in such manner as the Directors may determine without any such determination or identification requiring any alteration to the Articles.

(2) Each Non-cumulative Dollar Preference Share shall confer the following rights as to participation in the profits and assets of the Company, receipt of notices, attendance and voting at meetings and redemption:

(a) *Income*

the right (subject to the provisions of paragraph (b) of this sub-Article, if applicable) to a non-cumulative preferential dividend not exceeding a specified amount payable in Dollars at such rate (which may be fixed or variable and may be subject to recalculation at fixed intervals) on such dates (each a "dividend payment date") in respect of such periods (each a "dividend period") and on such other terms and conditions as may be determined by the Directors prior to allotment thereof. References in the Articles to a "dividend" on the Non-cumulative Dollar Preference Shares include a reference to each dividend in respect of each dividend period applicable thereto and references in this Article 4(C) to dividend payment dates and dividend periods are to dividend payment dates and dividend periods in respect of the Non-cumulative Dollar Preference Shares only. Such dividends shall be paid in priority to the payment of any dividends on the Ordinary Shares. The Non-cumulative Dollar Preference Shares shall rank for dividend after the Cumulative Preference Shares, *pari passu* with all other New Preference Shares expressed to rank *pari passu* therewith as regards participation in profits and otherwise in priority to any other share capital in the Company.

(b) *Further provisions as to income*

All or any of the following provisions shall apply in relation to any particular Non-cumulative Dollar Preference Shares if so determined by the Directors prior to allotment thereof:

(i) if, in the opinion of the Directors, the distributable profits of the Company are sufficient to cover the payment in full of dividends on the Non-cumulative Dollar Preference Shares on any dividend payment date and also the payment in full of all other dividends stated to be payable on such date on any other New Preference Share expressed to rank *pari passu* therewith as regards participation in profits, after payment in full, or the setting aside of a sum to cover the payment in full, of all dividends stated to be payable on such date on any Cumulative Preference Share, then each such dividend shall be declared and paid in full;

(ii) if, in the opinion of the Directors, the distributable profits of the Company are insufficient to cover the payment in full of dividends on the Non-cumulative Dollar Preference Shares on any dividend payment date and also the payment in full of all other dividends stated to be payable on such date on any other New Preference Share expressed to rank *pari passu* therewith as regards participation in profits, after payment in full, or the setting aside of a sum to cover the

payment in full, of all dividends stated to be payable on or before such date on any Cumulative Preference Share, then dividends shall be declared by the Directors *pro rata* for the Non-cumulative Dollar Preference Shares and such other New Preference Shares to the extent of the available distributable profits (if any) to the intent that the amount of dividend declared per share on each such Non-cumulative Dollar Preference Share and other New Preference Share will bear to each other the same ratio as the dividends accrued per share on each such Non-cumulative Dollar Preference Share and other New Preference Share bear to each other. If it shall subsequently appear that any such dividend which has been paid should not, in accordance with the provisions of this sub-paragraph, have been so paid, then provided the Directors shall have acted in good faith, they shall not incur any liability for any loss which any shareholder may suffer in consequence of such payment having been made;

(iii) if in the opinion of the Directors, the payment of any dividend on any Non-cumulative Dollar Preference Shares would breach or cause a breach of the Bank of England's capital adequacy requirements applicable to the Company and/or any of its subsidiaries, then none of such dividend shall be declared or paid[‡];

(iv) subject to sub-paragraph (v) below, the Non-cumulative Dollar Preference Shares shall carry no further right to participate in the profits of the Company and if and to the extent that any dividend or part thereof is on any occasion not paid for the reasons described in sub-paragraph (ii) or (iii) above, the holders of such shares shall have no claim in respect of such non-payment;

(v) if any dividend or part thereof on any Non-cumulative Dollar Preference Share is not payable for the reasons specified in sub-paragraphs (ii) or (iii) above and if they so resolve, the Directors may, subject to the Statutes, pay a special non-cumulative preferential dividend on the Non-cumulative Dollar Preference Shares at a rate not exceeding one (1) US cent per share (but so that reference elsewhere in this Article to any dividend payable on any Non-cumulative Dollar Preference Shares shall not be treated as including a reference to any such special dividend);

(vi) if any date on which dividends are payable on Non-cumulative Dollar Preference Shares is not a day on which banks in London and the City of New York are open for business, and on which foreign exchange dealings may be conducted in such cities ("a Dollar Business Day"), then payment of the dividend payable on such date will be made on the succeeding Dollar Business Day and without any interest or other payment in respect of such delay unless such day shall fall within the next calendar month whereupon such payment will be made on the preceding Dollar Business Day;

(vii) dividends payable on Non-cumulative Dollar Preference Shares shall accrue from and to the dates determined by

‡ Note: the banking supervision functions of the Bank of England were transferred to the Financial Services Authority by the Bank of England Act 1998

the Directors prior to allotment thereof, and the amount of dividend payable in respect of any period shorter than a full dividend period will be calculated on the basis of twelve 30 day months, a 360 day year and the actual number of days elapsed in such period;

(viii) if any dividend stated to be payable on the Non-cumulative Dollar Preference Shares on the most recent dividend payment date has not been declared and paid in full, or if a sum has not been set aside to provide for such payment in full, no dividends may be declared on any other share capital of the Company (other than the Cumulative Preference Shares), and no sum may be set aside for the payment thereof, unless, on the date of declaration relative to any such payment, an amount equal to the dividend stated to be payable on the Non-cumulative Dollar Preference Shares in respect of the then current dividend period is set aside for the payment in full of such dividend on the dividend payment date relating to the then current dividend period; and

(ix) if any dividend stated to be payable on the Non-cumulative Dollar Preference Shares on any dividend payment date has not been declared and paid in full, or if a sum has not been set aside to provide for such payment in full, the Company may not redeem or purchase or otherwise acquire for any consideration any other share capital of the Company, and may not set aside any sum nor establish any sinking fund for the redemption or purchase or other such acquisition thereof, until such time as dividends stated to be payable on the Non-cumulative Dollar Preference Shares in respect of successive dividend periods together aggregating no less than twelve months shall thereafter have been declared and paid in full.

(c) *Capital*

The right on a winding up or liquidation, voluntary or otherwise other than (unless otherwise provided by the terms of issue of such share) a redemption or purchase by the Company of any shares of any class to receive in Dollars out of the surplus assets of the Company available for distribution amongst the members:

(i) after payment of the arrears (if any) of the fixed cumulative preferential dividends stated to be payable on the Cumulative Preference Shares to the holders thereof in accordance with Article 4(B) FIRSTLY and *pari passu* with the holders of any other New Preference Shares expressed to rank *pari passu* therewith as regards participation in profits and in priority to the holders of the Ordinary Shares of the Company a sum equal to:

(A) the amount of any dividend which is due for payment after the date of commencement of the winding up or liquidation but which is payable in respect of a period ending on or before such date; and

(B) any further amount of dividend payable in respect of the period from the preceding dividend payment date

to the date of payment in accordance with this sub-paragraph (i);

but only to the extent that any such amount or further amount was, or would have been payable as a dividend in accordance with or pursuant to this Article 4(C) (other than pursuant to this provision); and

(ii) subject thereto, *pari passu* with the holders of the Cumulative Preference Shares and any other New Preference Shares expressed to rank *pari passu* therewith as regards participation in surplus assets in priority to the holders of the Ordinary Shares of the Company, a sum equal to the amount paid up or credited as paid up on the Non-cumulative Dollar Preference Shares (including any premium paid to the Company in respect thereof on issue).

If upon any such winding-up or liquidation, the amounts available for payment are insufficient to cover the amounts payable in full on the Cumulative Preference Shares, the Non-cumulative Dollar Preference Shares and on any other New Preference Shares expressed to rank *pari passu* therewith as regards participation in surplus assets, then the holders of the Cumulative Preference Shares, the Non-cumulative Dollar Preference Shares and such other New Preference Shares will share rateably in the distribution of surplus assets (if any) in proportion to the full respective preferential amounts to which they are entitled. No Non-cumulative Dollar Preference Share shall confer any right to participate in the surplus assets of the Company other than that set out in this sub-paragraph (2)(c) of this Article 4(C).

(d) *Receipt of Notices*

The right to have sent to the holder of each Non-cumulative Dollar Preference Share (at the same time as the same are sent to the holders of Ordinary Shares) a copy of the Company's Annual Report and Accounts and Interim Financial Statement together with notice of any General Meeting of the Company at which such holder is entitled to attend and vote.

(e) *Attendance and Voting at Meetings*

The right to attend at a General Meeting of the Company and to speak to or vote upon any Resolution proposed thereat in the following circumstances:

(i) in respect of a Resolution which is to be proposed at the Meeting either varying or abrogating any of the rights attached to the Non-cumulative Dollar Preference Shares or proposing the winding up of the Company (and then in each such case only to speak to and vote upon any such Resolution);

(ii) in circumstances where the dividend stated to be payable on the Non-cumulative Dollar Preference Shares in respect of such number of dividend periods as the Directors shall determine prior to allotment thereof has not been declared and paid in full, and until such date as the Directors shall likewise determine; and

(iii) in such other circumstances as the Directors may determine prior to allotment of the Non-cumulative Dollar Preference Shares,

but not otherwise, together with the right, in such circumstances, if any, as the Directors may determine prior to allotment of the Non-cumulative Dollar Preference Shares, to seek to requisition a General Meeting of the Company for which purpose the Non-cumulative Dollar Preference Shares will be deemed to carry the number of votes determined pursuant to the following sentence. Whenever holders of Non-cumulative Dollar Preference Shares are so entitled to vote on a Resolution, on a show of hands every such holder who is present in person, and every proxy present who has been duly appointed by any such holder, shall have one vote and, on a poll, every such holder who is present in person or by proxy shall have such number of votes for each Non-cumulative Dollar Preference Share held as may be determined by the Directors prior to allotment of such Non-cumulative Dollar Preference Shares.

(f) *Redemption*

(i) Unless the Directors shall, prior to the allotment of any series of Non-cumulative Dollar Preference Shares, determine that such series shall be non-redeemable, each series of Non-cumulative Dollar Preference Shares shall, subject to the provisions of the Statutes, be redeemable at the option of the Company in accordance with the following provisions.

(ii) In the case of any series of Non-cumulative Dollar Preference Shares which are to be so redeemable:

(A) the Company may, subject thereto, redeem on any Redemption Date (as hereinafter defined) all or some only of the Non-cumulative Dollar Preference Shares by giving to the holders of the Non-cumulative Dollar Preference Shares to be redeemed not less than 30 days' nor more than 60 days' prior notice in writing (a "Notice of Redemption") of the relevant Redemption Date. "Redemption Date" means, in relation to a Non-cumulative Dollar Preference Share, any date which falls no earlier than five years and one day after the date of allotment of the Non-cumulative Dollar Preference Share to be redeemed;

(B) there shall be paid on each Non-cumulative Dollar Preference Share so redeemed, in Dollars, the aggregate of the nominal amount thereof together with any premium paid on issue together with, where applicable, the Relevant Redemption Premium (defined below) and together with arrears (if any) of dividends thereon (whether earned or declared or not) in respect of the period from the dividend payment date last preceding the Redemption Date to the Redemption Date. "Relevant Redemption Premium" means an amount calculated in accordance with the following formula as applied in relation to a Redemption Date notified under sub-paragraph (A) above which falls within the period of twelve months commencing on the date following the

fifth, sixth, seventh, eighth or ninth anniversary of the relevant date of allotment ("the Relevant Date"), as the case may be. The formula for calculation of the Relevant Redemption Premium shall be

A x B

where:

"A" is the amount of dividend excluding any associated tax credit (not expressed as a percentage) calculated at the date of allotment to which the holder of the Non-cumulative Dollar Preference Share to be redeemed would become entitled in respect of the twelve months following allotment by virtue of the terms of issue thereof on the assumption that such amount of dividend had accrued on the Non-cumulative Dollar Preference Share during such period and was payable at the end of such period and on the further assumption that there shall be no change in the associated tax credit affecting the amount of dividend payable in respect of such period; and

"B" in relation to a Redemption Date falling within the period of twelve months commencing on the day following the fifth anniversary of the Relevant Date, is 66.66 per cent,

or

in relation to a Redemption Date falling within the period of twelve months commencing on the day following the sixth anniversary of the Relevant Date, is 53.33 per cent,

or

in relation to a Redemption Date falling within the period of twelve months commencing on the day following the seventh anniversary of the Relevant Date, is 40.00 per cent,

or

in relation to a Redemption Date falling within the period of twelve months commencing on the day following the eighth anniversary of the Relevant Date, is 26.66 per cent,

or

in relation to a Redemption Date falling within the period of twelve months commencing on the day following the ninth anniversary of the Relevant Date is 13.33 per cent. No Relevant Redemption Premium shall be payable when the Redemption Date falls after the tenth anniversary of the Relevant Date. The product of the above formula in respect of a Non-cumulative Dollar Preference Share may, in

the Directors' discretion, be rounded down to the nearest whole cent;

(C) in the case of a redemption of some only of the Non-cumulative Dollar Preference Shares in any series, the Company shall for the purpose of determining the particular Non-cumulative Dollar Preference Shares to be redeemed cause a drawing to be made at the Office or such other place as the Directors may approve in the presence of the Auditors for the time being of the Company;

(D) any Notice of Redemption given under sub-paragraph (ii)(A) above shall specify the applicable Redemption Date, the particular Non-cumulative Dollar Preference Shares to be redeemed and the redemption price (specifying the amount of the accrued and unpaid dividend per share to be included therein and stating that dividends on the Non-cumulative Dollar Preference Shares to be redeemed will cease to accrue on redemption), and shall state the place or places at which documents of title in respect of such Non-cumulative Dollar Preference Shares are to be presented and surrendered for redemption and payment of the redemption monies is to be effected. Upon such Redemption Date, the Company shall redeem the particular Non-cumulative Dollar Preference Shares to be redeemed on that date subject to the provisions of this paragraph and of the Statutes. No defect in the Notice of Redemption or in the giving thereof shall affect the validity of the redemption proceedings;

(E) the provisions of this and the following sub-paragraphs shall have effect in relation to Non-cumulative Dollar Preference Shares for the time being issued and registered in the Register of Members ("Registered Shares") and represented by certificates ("Certificates"). Payments in respect of the amount due on redemption of a Registered Share shall be made by Dollar cheque drawn on a bank in London or in the City of New York or upon the request of the holder or joint holders not later than the date specified for the purpose in the Notice of Redemption by transfer to a Dollar account maintained by the payee with a bank in London or in the City of New York. Such payment will be against presentation and surrender of the relative Certificate at the place or one of the places specified in the Notice of Redemption and if any Certificate so surrendered includes any Non-cumulative Dollar Preference Shares not to be redeemed on the relevant Redemption Date the Company shall within fourteen days thereafter issue to the holder, free of charge, a fresh Certificate in respect of such Non-cumulative Dollar Preference Shares.

All payments in respect of redemption monies will in all respects be subject to any applicable fiscal or other laws;

(F) as from the relevant Redemption Date the dividend on the Non-cumulative Dollar Preference Shares due for redemption shall cease to accrue except on any such Non-cumulative Dollar Preference Share in respect of which, upon the due surrender of the Certificate , in accordance with sub-paragraph (E) above, payment of the redemption monies due on such Redemption Date shall be improperly withheld or refused, in which case such dividend, at the rate then applicable, shall be deemed to have continued and shall accordingly continue to accrue from the relevant Redemption Date to the date of payment of such redemption monies. Such Non-cumulative Dollar Preference Share shall not be treated as having been redeemed until the redemption monies in question together with the accrued dividend thereon shall have been paid;

(G) if the due date for the payment of the redemption monies on any Non-cumulative Dollar Preference Shares is not a Dollar Business Day then payment of such monies will be made on the next succeeding day which is a Dollar Business Day and without any interest or other payment in respect of such delay unless such day shall fall within the next calendar month whereupon such payment will be made on the preceding Dollar Business Day; and

(H) the receipt of the holder for the time being of any Registered Share (or in the case of joint holders the receipt of any one of them) to the place or one of the places specified pursuant to sub-paragraph (D) above in respect of the monies payable on redemption on such Registered Share shall constitute an absolute discharge to the Company.

(g) *Purchase*

Subject to the provisions of the Statutes and any other applicable laws, the Company may at any time and from time to time purchase any Non-cumulative Dollar Preference Shares upon such terms as the Directors shall determine provided that, in the case of Non-cumulative Dollar Preference Shares which are listed on the London Stock Exchange, the purchase price, exclusive of expenses and accrued dividends, shall not exceed (i) in the case of a purchase in the open market, or by tender (which shall be available alike to all holders of the Non-cumulative Dollar Preference Shares), the average of the closing middle market quotations of such Non-cumulative Dollar Preference Shares on the London Stock Exchange (as derived from The London Stock Exchange Daily Official List) for the last ten dealing days preceding the date of purchase or (if higher), in the case of a purchase in the open market only, the market price on the date of purchase provided that such market price is not more than 105 per cent of such average and (ii) in the case of a purchase by private treaty, 120 per cent of the closing middle market quotation of such Non-cumulative Dollar Preference Shares on the London Stock Exchange (as derived from The London Stock Exchange Daily Official List) for the last dealing day preceding the date of purchase: but so that this proviso shall not apply to any

purchase of Non-cumulative Dollar Preference Shares made in the ordinary course of a business of dealing in securities.

(3) (a) Save with the written consent of the holders of three-quarters in nominal value of, or with the sanction of a Special Resolution passed at a separate General Meeting of the holders of, the Non-cumulative Dollar Preference Shares, the Directors shall not authorise or create, or increase the amount of, any shares of any class or any security convertible into shares of any class ranking as regards rights to participate in the profits or assets of the Company (other than on a redemption or purchase by the Company of any such shares) in priority to the Non-cumulative Dollar Preference Shares.

(b) The special rights attached to any series of Non-cumulative Dollar Preference Shares allotted or in issue shall not (unless otherwise provided by their terms of issue) be deemed to be varied by the creation or issue of any New Shares ranking as regards participation in the profits or assets of the Company in some or all respects *pari passu* with or after such Non-cumulative Dollar Preference Shares. Any new shares ranking in some or all respects *pari passu* with such Non-cumulative Dollar Preference Shares may without their creation or issue being deemed to vary the special rights attached to any Non-cumulative Dollar Preference Share then in issue either carry rights identical in all respects with such Non-cumulative Dollar Preference Shares or any of them or carry rights differing therefrom in any respect, including, but without prejudice to the generality of the foregoing, in that:

(i) the rate or means of calculating the dividend may differ and the dividend may be cumulative or non-cumulative;

(ii) the New Shares or any series thereof may rank for dividend as from such date as may be provided by the terms of issue thereof and the dates for payment of dividend may differ;

(iii) the New Shares may be denominated in Sterling or in any Foreign Currency;

(iv) a premium may be payable on return of capital or there may be no such premium;

(v) the New Shares may be redeemable at the option of the holder or of the Company, or may be non-redeemable and if redeemable at the option of the Company, they may be redeemable at different dates and on different terms from those applying to the Non-cumulative Dollar Preference Shares; and

(vi) the New Shares may be convertible into Ordinary Shares or any other class of shares ranking as regards participation in the profits and assets of the Company *pari passu* with or after such Non-cumulative Dollar Preference Shares in each case on such terms and conditions as may be prescribed by the terms of issue thereof.

(D) ***Category II non-cumulative dollar preference shares***

(1) The rights as regards participation in profits and assets of the Company, receipt of notice, attendance and voting at meetings and redemption attaching to the Category II Non-cumulative Dollar Preference Shares of US$0.01 each

in the capital of the Company ("Category II Non-cumulative Dollar Preference Shares") shall be as provided by this Article 4(D).

(2) Article 4(C) (in its present form or as from time to time altered) shall apply to the Category II Non-cumulative Dollar Preference Shares but with the following modifications:

(a) subject to (b) below, for any reference (however worded and whether express or implied) to Non-cumulative Dollar Preference Shares there shall be deemed to be substituted a reference to Category II Non-cumulative Dollar Preference Shares;

(b) references to "New Preference Shares" shall be deemed to include the Non-cumulative Dollar Preference Shares;

(c) in Article 4(C)(2)(e) the words "and on such terms" shall be deemed to be inserted after "such circumstances" and the words "for which purpose the Non-cumulative Dollar Preference Shares will be deemed to carry the number of votes determined pursuant to the following sentence" shall be deemed to be deleted;

(d) in relation to any Category II Non-cumulative Dollar Preference share allotted prior to 16 January 1997 or allotted on exchange of any Exchangeable Capital Securities, Series A of the Company, in Article 4(C)(2)(f)(ii)(A) the last sentence shall be deemed to be deleted and the following deemed to be substituted therefor:

""Redemption Date" means, in relation to any Category II Non-cumulative Dollar Preference Share, any date which either (i) falls no earlier than such date (if any) as may be fixed by the Directors, prior to allotment of that share, as being the earliest date on which the Company may redeem such share, and the date so fixed shall be no earlier than five years and one day, and no later than ten years and one day, after the relevant date of allotment, or (ii) if no date is fixed by the Directors as aforesaid under (i) above in relation to that share, falls no earlier than five years and one day after the date of allotment of the Category II Non-cumulative Dollar Preference Share to be redeemed";

(e) in relation to any Category II Non-cumulative Dollar Preference Shares allotted on or after 16 January 1997 (other than on exchange of any Exchangeable Capital Securities, Series A of the Company), sub-paragraphs (A) and (B) of Article 4(C)(2)(f)(ii) shall be deemed to be deleted and the following deemed to be substituted therefor:

"(A) the Company may, subject thereto, redeem on any Redemption Date (as hereinafter defined) all or some only of the Category II Non-cumulative Dollar Preference Shares by giving to the holders of the Category II Non-cumulative Dollar Preference Shares to be redeemed not less than 30 days nor more than 60 days prior notice in writing (a "Notice of Redemption") of the relevant Redemption Date. "Redemption Date" means, in relation to a Category II Non-cumulative Dollar Preference Share, any date which falls no earlier than three years and one day (or such longer period (if any) as may be fixed by the Directors prior to allotment of such Share) after the date of allotment of the Category II Non-cumulative Dollar Preference Share to be redeemed ("the Relevant Date") (provided that the Directors may determine prior to allotment that a Redemption Date must,

in addition to falling as aforesaid, fall on such anniversary (or on such anniversaries) of the date of allotment as may be fixed by the Directors prior to allotment);

(B) there shall be paid on each Category II Non-cumulative Dollar Preference Share so redeemed, in Dollars, the aggregate of the nominal amount thereof together with any premium paid on issue together with, where applicable, the Relevant Redemption Premium (defined below) and together with arrears (if any) of dividends thereon (whether earned or declared or not) in respect of the period from the dividend payment date last preceding the Redemption Date to the Redemption Date. "Relevant Redemption Premium" means an amount calculated in accordance with such one (if any) of the following three formulae as applied in relation to a Redemption Date notified under sub-paragraph (A) above which falls within the period of twelve months commencing on the date following the third, fourth, fifth, sixth or seventh anniversary of the Relevant Date, as the case may be, as may be determined by the Directors prior to the Relevant Date. The formula for calculation of the Relevant Redemption Premium shall be:

(a) A x B

where:

"A" is the amount of dividend excluding any associated tax credit (not expressed as a percentage) calculated at the date of allotment to which the holder of the Category II Non-cumulative Dollar Preference Share to be redeemed would become entitled in respect of the twelve months following allotment by virtue of the terms of issue thereof on the assumption that such amount of dividend had accrued on the Category II Non-cumulative Dollar Preference Share during such period and was payable at the end of such period and on the further assumption that there shall be no change in the associated tax credit affecting the amount of dividend payable in respect of such period; and

"B" in relation to a Redemption Date falling within the period of twelve months commencing on the day following the third anniversary of the Relevant Date, is 66.66 per cent.,

or

in relation to a Redemption Date falling within the period of twelve months commencing on the day following the fourth anniversary of the Relevant Date, is 53.33 per cent.,

or

in relation to a Redemption Date falling within the period of twelve months commencing on the day

following the fifth anniversary of the Relevant Date, is 40.00 per cent.,

or

in relation to a Redemption Date falling within the period of twelve months commencing on the day following the sixth anniversary of the Relevant Date, is 26.66 per cent.,

or

in relation to a Redemption Date falling within the period of twelve months commencing on the day following the seventh anniversary of the Relevant Date is 13.33 per cent; or

(b) C x D

where:

"C" is the amount of dividend excluding any associated tax credit (not expressed as a percentage) calculated at the date of allotment to which the holder of the Category II Non-cumulative Dollar Preference Share to be redeemed would become entitled in respect of the twelve months following allotment by virtue of the terms of issue thereof on the assumption that such amount of dividend had accrued on the Category II Non-cumulative Dollar Preference Share during such period and was payable at the end of such period and on the further assumption that there shall be no change in the associated tax credit affecting the amount of dividend payable in respect of such period; and

"D" in relation to a Redemption Date falling within the period of twelve months commencing on the day following the third anniversary of the Relevant Date, is 50 per cent.,

or

in relation to a Redemption Date falling within the period of twelve months commencing on the day following the fourth anniversary of the Relevant Date, is 40 per cent.,

or

in relation to a Redemption Date falling within the period of twelve months commencing on the day following the fifth anniversary of the Relevant Date, is 30 per cent.,

or

in relation to a Redemption Date falling within the period of twelve months commencing on the day

following the sixth anniversary of the Relevant Date, is 20 per cent.,

or

in relation to a Redemption Date falling within the period of twelve months commencing on the day following the seventh anniversary of the Relevant Date is 10 per cent; or

(c) E x F

where:

"E" is the amount of US$25; and

"F" in relation to a Redemption Date falling within the period of twelve months commencing on the day following the third anniversary of the Relevant Date, is 33.33 per cent.,

or

in relation to a Redemption Date falling within the period of twelve months commencing on the day following the fourth anniversary of the Relevant Date, is 26.66 per cent.,

or

in relation to a Redemption Date falling within the period of twelve months commencing on the day following the fifth anniversary of the Relevant Date, is 20 per cent.,

or

in relation to a Redemption Date falling within the period of twelve months commencing on the day following the sixth anniversary of the Relevant Date, is 13.33 per cent.,

or

in relation to a Redemption Date falling within the period of twelve months commencing on the day following the seventh anniversary of the Relevant Date, is 6.66 per cent.

No Relevant Redemption Premium shall be payable when the Redemption Date falls after the eighth anniversary of the Relevant Date. The product of any of the above formulae in respect of a Category II Non-cumulative Dollar Preference Share may, in the Directors' discretion, be rounded down to the nearest whole cent.

The Directors may, in their discretion, determine in relation to any Category II Non-cumulative Dollar Preference Share, prior to the Relevant Date, that none of the above formulae

shall apply, in which event no Relevant Redemption Premium shall be payable;", and

(f) notwithstanding the terms of sub-paragraph (e) above, in relation to any Category II Non-cumulative Dollar Preference Shares allotted on or after 14 January 2000 (other than on exchange of any Exchangeable Capital Securities, Series A of the Company) the provisions of sub-paragraph (A) and (B) set out in sub-paragraph (e) above shall have effect subject to the following modifications:

(i) the reference in sub-paragraph (A) to three years and one day shall be deemed to be a reference to five years and one day;

(ii) notwithstanding the terms of sub-paragraph (B), a Relevant Redemption Premium shall only be payable when the relevant Redemption Date falls after the tenth anniversary of the Relevant Date and on or prior to the twentieth anniversary of the Relevant Date (the "redemption premium period"). The formula for calculation of such Relevant Redemption Premium (subject to rounding down as specified in sub-paragraph (B)) shall be as specified in (iii) below. The Directors may, in their discretion, determine in relation to any Category II Non-cumulative Dollar Preference Share, prior to the Relevant Date, that no Relevant Redemption Premium shall be payable;

(iii) the formula for calculating the Relevant Redemption Premium shall be:

A x B

where:

"A" is as defined in sub-paragraph (e) above;

"B" is, in relation to any Redemption Date falling within the redemption premium period, a percentage determined from the table below by reference to the anniversary of the Relevant Date specified in the left-hand column which is the latest to occur prior to that Redemption Date:

Anniversary of the Relevant Date	**Percentage**
tenth	50%
eleventh	45%
twelfth	40%
thirteenth	35%
fourteenth	30%
fifteenth	25%
sixteenth	20%
seventeenth	15%
eighteenth	10%
nineteenth	5%

(g) in relation to any particular Category II Non-cumulative Dollar Preference Shares allotted on or after the date of passing of resolution 17 set out in Appendix 2 to the circular letter to shareholders dated 15th March 2004, all of the following provisions

shall apply if (but only if) the Directors so determine prior to allotment thereof:

(i) the Directors may, in their sole and absolute discretion, resolve prior to any dividend payment date that the dividend on such Category II Non-cumulative Dollar Preference Shares, or part thereof, shall not be paid on that dividend payment date. If the Directors resolve as aforesaid, then none or (as the case may be) part only of the dividend shall be declared and/or paid. The Directors shall not be bound to give their reasons for exercising their discretion under this sub-paragraph, and the Directors may exercise their discretion in respect of a dividend notwithstanding the previous setting aside of a sum to provide for payment of that dividend;

(ii) to the extent that any dividend or part of a dividend on any Category II Non-cumulative Dollar Preference Shares is, on any occasion, not paid by reason of the exercise of the Directors' discretion pursuant to sub-paragraph (i) above, the holders of such shares shall have no claim in respect of such non-payment;

(iii) if any dividend or part of a dividend on any Category II Non-cumulative Dollar Preference Shares has, on any occasion, not been paid by reason of the exercise of the Directors' discretion under sub-paragraph (i) above:

(1) the provisions of sub-paragraphs (viii) and (ix) of Article 4(C)(2)(b) shall not apply in respect of such non-payment;

(2) such non-payment shall not prevent or restrict (a) the declaration and payment of dividends on any other Category II Non-cumulative Dollar Preference Shares, or on any preference share capital of the Company expressed to rank *pari passu* with the Category II Non-cumulative Dollar Preference Shares, (b) the setting aside of sums for the payment of such dividends, (c) (subject to (4) below) the redemption, purchase or other acquisition of shares in the Company by the Company, or (d) (subject to (4) below) the setting aside of sums, or the establishment of sinking funds, for any such redemption, purchase or other acquisition by the Company;

(3) no dividend may be declared or paid on any share capital ranking after the Category II Non-cumulative Dollar Preference Shares as regards participation in profits (including the Ordinary Shares) until such time as the dividend stated to be payable on the Category II Non-cumulative Dollar Preference Shares to which the non-payment relates in respect of a dividend period has thereafter been declared and paid in full; and

(4) the Company may not redeem or purchase or otherwise acquire for any consideration any share capital ranking after the Category II Non-cumulative Dollar Preference Shares, and may not set aside any

sum nor establish any sinking fund for the redemption, purchase or other such acquisition thereof, until such time as dividends stated to be payable on the Category II Non-cumulative Dollar Preference Shares to which the non-payment relates in respect of successive dividend periods together aggregating no less than twelve months shall thereafter have been declared and paid in full;

(iv) if there is any conflict between the provisions of this Article 4(D)(2)(g), as they apply to any Category II Non-cumulative Dollar Preference Shares, and any other provisions of Article 4(C) or this Article 4(D) applying to such Category II Non-cumulative Dollar Preference Shares, the provisions of this Article 4(D)(2)(g) shall prevail. In Article 4(C)(2)(a), the words ", and subject to the provisions of Article 4(D)(2)(g), if applicable" shall be deemed to be inserted after "if applicable" in the first sentence, and in Article 4(C)(2)(b) the words "(subject to the provisions of Article 4(D)(2)(g), if applicable)" shall be deemed to be inserted after "such dividend shall" in sub-paragraph (i) and after "dividends shall" in sub-paragraph (ii);

(v) in determining the sum payable on any Category II Non-cumulative Dollar Preference Shares pursuant to Article 4(C)(2)(c)(i) on a winding up or liquidation, the Directors' discretion under sub-paragraph (i) above shall be disregarded save in so far as such discretion was actually exercised prior to the making of the determination;

(vi) in calculating the Relevant Redemption Premium (if any) payable in respect of any Category II Non-cumulative Dollar Preference Shares, the component "A" in the formula for such calculation shall be determined on the assumption that there shall be no exercise by the Directors of their discretion under sub-paragraph (i) above in respect of such Category II Non-cumulative Dollar Preference Shares; and

(vii) for the avoidance of doubt, no series of Category II Non-cumulative Dollar Preference Shares shall be treated as ranking after any other New Preference Shares with which it is expressed to rank *pari passu* as regards participating in profits, by reason only of the provisions set out in this Article 4(D)(2)(g) being included in the terms of issue applicable to that series, or any dividend on that series not being paid by virtue of this Article 4(D)(2)(g);

(h) in relation to any particular Category II Non-cumulative Dollar Preference Shares allotted after the date of adoption of the Articles, the proviso in sub-paragraph (2)(g) of Article 4(C) which specifies a maximum price for purchases by the Company of Non-cumulative Dollar Preference Shares which are listed on the London Stock Exchange shall not apply in relation to such Category II Non-cumulative Dollar Preference Shares unless the Directors expressly determine otherwise prior to allotment thereof.

(3) For the avoidance of doubt, the Category II Non-cumulative Dollar Preference Shares are, for the purposes of Article 4(C), New Preference Shares expressed to rank *pari passu* with the Non-cumulative Dollar Preference Shares as regards participation in surplus profits and surplus assets.

(E) Subject to the provisions of Article 4 and to the special rights attached to the Non-cumulative Dollar Preference Shares and the Category II Non-cumulative Dollar Preference Shares and to any special rights which are or may be attached to any other class of shares (i) the profits of the Company available for dividend and resolved to be distributed shall be distributed by way of dividend amongst the holders of the Ordinary Shares and (ii) on a winding up or liquidation, voluntary or otherwise, the residue, if any, of the surplus assets of the Company available for distribution amongst the members shall belong to the holders of the Ordinary Shares and be divided amongst them in proportion to the amounts paid up or credited as paid up on such shares held by them respectively.

4A. Non-cumulative preference shares: supplementary provisions

(1) The provisions of Article 4 regarding redemption of any series of non-cumulative preference shares are subject to paragraph (2) below.

(2) Without prejudice to any special rights previously conferred on the holders of any shares or class of shares for the time being issued, and without prejudice to the Directors' power under Article 5, the Directors may determine the terms, conditions and manner of redemption of any series of Non-cumulative Dollar Preference Shares or Category II Non-cumulative Dollar Preference Shares allotted after the date of adoption of the Articles prior to allotment thereof, and such terms, conditions and manner of redemption may differ (in whole or in part) from the provisions in Article 4 regarding redemption which would otherwise apply.

(3) Notwithstanding any other provision of the Articles, in relation to any New Preference Shares which are allotted after the date of adoption of the Articles, the proviso in sub-paragraph (2)(g) of Article 4(C), in the case of Non-cumulative Dollar Preference Shares (a proviso which specifies a maximum price for purchases by the Company of shares of the class in question which are listed on the London Stock Exchange) shall not apply in relation to purchases of such New Preference Shares unless the Directors expressly determine otherwise prior to allotment thereof.

5. Shares with special rights and redeemable shares

(1) Without prejudice to any special rights previously conferred on the holders of any shares or class of shares for the time being issued (which special rights may be varied or abrogated only in the manner provided by Article 6), any share in the Company may be issued with such preferred, deferred or other special rights, or subject to such restrictions, whether in regard to participation in the profits or assets of the Company, voting or otherwise, as the Company may from time to time by Ordinary Resolution determine (or, in the absence of any such determination or in pursuance of any power conferred on the Directors by the Articles or by Ordinary Resolution, as the Directors may determine) and subject to the provisions of the Statutes the Company may issue any shares which are, or at the option of the Company or the holder are to be liable, to be redeemed and the Directors may determine the terms, conditions and manner of redemption of any such shares.

(2) Without prejudice to any special rights previously conferred on the holders of any shares or class of shares for the time being issued (which special rights may be varied or abrogated only in the manner provided by Article 6), and notwithstanding the provisions of paragraph (1) above, any preference share in the Company may be issued with such rights, and subject to such restrictions, as the Directors may determine prior to allotment or otherwise in accordance with their terms. Such rights and restrictions may relate to participation in the profits or assets of the Company, receipt of notices, attendance and voting at meetings, conversion into other shares or

redemption, and other rights and restrictions may also be attached. If rights or restrictions relating to redemption are attached, the Directors may determine the terms, conditions and manner of redemption. The preference shares may be denominated in different currencies. Notwithstanding the foregoing, the Directors may not determine under this paragraph (2) the terms of issue of any shares to which the provisions of Article 4 and 4A are stated on issue to apply.

5A If, at any time, the Company has convertible securities in issue, the conversion of such convertible securities of the Company may be effected in such manner as the Directors shall from time to time determine and, without prejudice to the generality of the foregoing, may be effected by:

(A) a capitalisation of any profit or reserve in accordance with Article 137 and the allotment and issue of fully paid shares to the holders of the convertible securities;

(B) a share consolidation and/or sub-division;

(C) an alteration by resolution of the Directors of the terms of the convertible securities including, without limitation, so as to:

(i) reduce or eliminate any rights to attend, vote or speak at a General Meeting of the Company, any rights to receive notices or copies of the Company's Annual Report and Accounts and interim financial information, any rights to dividends and distributions and/or any rights to capital on a winding-up or liquidation;

(ii) provide for the delivery or surrender of the convertible securities to the Company or as it may direct for no consideration; and

(iii) authorise the Secretary (or any other person appointed for the purpose by the Directors) as agent for the holders of the convertible shares to execute on behalf of such holders such documents as are necessary in connection with such delivery or surrender without obtaining the sanction of the holder or holders thereof,

in each case provided that the relevant holders of the convertible securities have, simultaneously with, or prior to, such alteration, received the securities (fully paid) to which they are entitled on conversion of the convertible securities;

(D) a redemption or repurchase of securities out of the profits of the Company which would otherwise be available for distribution to the holders of any class of shares with the holders of the convertible securities subscribing for or acquiring, simultaneously with such redemption or repurchase, the appropriate number of securities (fully paid) to which they are entitled on conversion of the convertible securities and the holders shall be deemed irrevocably to authorise and instruct the Secretary (or any other person appointed for the purpose by the Board of Directors) to subscribe for or acquire such securities, as agent on the holder's behalf; or

(E) a redemption or repurchase of securities out of the proceeds of a fresh issue of shares with the holders of the convertible securities subscribing for or acquiring, simultaneously with such redemption or repurchase, the appropriate number of securities (fully paid) to which they are entitled on conversion of the convertible securities and the holders shall be deemed irrevocably to authorise and instruct the Secretary (or any other person appointed for the purpose by the Board of Directors) to subscribe for or acquire such securities, as agent on the holder's behalf,

or any combination of such means.

VARIATION OF RIGHTS

6. Method of varying class rights

Whenever the share capital of the Company is divided into different classes of shares, the special rights attached to any class may, subject to the provisions of the Statutes, be varied or abrogated either with the consent in writing of the holders of three-fourths of the issued shares of the class or with the sanction of a Special Resolution passed at a separate General Meeting of the holders of the shares of the class (but not otherwise) and may be so varied or abrogated either whilst the Company is a going concern or during or in contemplation of a winding up. To every such separate General Meeting all the provisions of the Articles relating to General Meetings of the Company and to the proceedings thereat shall *mutatis mutandis* apply, except that the necessary quorum shall be two persons at least holding or representing by proxy one-third in nominal amount of the issued shares of the class (but so that if at any adjourned meeting a quorum as above defined is not present, any two holders of shares of the class present in person or by proxy shall be a quorum). The foregoing provisions of this Article shall apply to the variation or abrogation of the special rights attached to some only of the shares of any class as if the shares concerned and the remaining shares of such class formed separate classes.

7. When share rights deemed to be varied

The special rights attached to any class of shares having preferential rights shall not unless otherwise expressly provided by the terms of issue thereof be deemed to be varied by the creation or issue of further shares ranking as regards participation in the profits or assets of the Company in some or all respects *pari passu* therewith but in no respect in priority thereto.

ALTERATION OF CAPITAL

8. New shares

All new shares shall be subject to the provisions of the Statutes and of the Articles with reference to allotment, payment of calls, lien, transfer, transmission, forfeiture and otherwise.

9. (A) Rights on sub-division

Any resolution authorising the Company to sub-divide its shares may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may, as compared with the others, have any such preferred, deferred or other special rights, or be subject to any such restrictions, as the Company has power to attach to unissued or new shares.

(B) Fractions arising

Where there has been a consolidation or division of shares and, as a result, shareholders are entitled to fractions of shares, the Directors may sell the shares representing the fractions to any person including the Company for the best price reasonably obtainable and distribute the net proceeds of sale in due proportion among the holders of the shares. Where the shares to be sold are held in certificated form, the Directors may authorise any person to execute an instrument of transfer of the shares to the purchaser or a person nominated by the purchaser, and where such shares are held in uncertificated form, the Directors may do all acts or things they consider necessary or expedient to effect the transfer of the shares to the purchaser or a person nominated by the purchaser. Where any holder's entitlement to a portion of the proceeds of sale amounts to less than a minimum figure determined by the Directors in their discretion, that holder's portion may be distributed to an organisation which is a charity for the purposes of the law of Scotland or England and Wales. The purchaser of any shares shall not be bound to see to the application of the proceeds of sale, and his title to the shares not be affected by any irregularity or invalidity of the proceedings in relation to the sale.

10. Purchase of own shares

Unless otherwise provided by the terms of issue, the rights attached to any New Preference Share shall not be deemed to be varied or abrogated by the purchase or redemption by the Company of any of its shares ranking as regards participation in the profits or assets of the Company *pari passu* with or postponed to such share.

SHARES

11. Shares at the disposal of the Directors

Subject to the provisions of the Statutes relating to authority, pre-emption rights and otherwise and of any resolution of the Company in General Meeting passed pursuant thereto and of the Articles, all new shares in the Company shall be at the disposal of the Directors and they may allot (with or without conferring a right of renunciation), grant options over or otherwise dispose of them to such persons, at such times and on such terms as they think proper. No share in the Company may be allotted (a) for cash in a currency other than that in which it is denominated or (b) for a consideration other than cash unless the value ascribed thereto is denominated in the same currency as such share.

12. Commission

In addition to all other powers of paying commissions, the Company may exercise the powers of paying commissions conferred by the Statutes to the full extent thereby permitted. The Company may also on any issue of shares pay such brokerage as may be lawful. Subject to the Statutes, any such commission or brokerage may be satisfied by the payment of cash or by the allotment of fully or partly paid shares or partly in one way and partly in another.

13. Renunciation

The Directors may at any time after the allotment of any share but before any person has been entered in the Register of Members as the holder recognise a renunciation thereof by the allottee in favour of some other person and may accord to any allottee of a share a right to effect such renunciation upon and subject to such terms and conditions as the Directors may think fit to impose. In this Article "allottee" includes provisional allottee and any person in whose favour an allotment has been previously renounced.

14. Interests not recognised

Except as required by law, no person shall be recognised by the Company as holding any share upon any trust, and the Company shall not be bound by or compelled in any way to recognise (even when having notice thereof) any equitable, contingent, future or partial interest in any share, or any interest in any fractional part of a share, or (except only as by the Articles or by law otherwise provided) any other right in respect of any share, except an absolute right to the entirety thereof in the registered holder or, in the case of a share warrant, in the bearer of the warrant for the time being.

EVIDENCE OF TITLE TO SHARES

15. Uncertificated Shares

(A) Pursuant and subject to the Uncertificated Securities Regulations, the Directors may permit title to shares of any class to be evidenced otherwise than by a certificate and title to shares of such a class to be transferred by means of a relevant system and may make arrangements for a class of shares (if all shares of that class are in all respects identical) to become a participating class. Title to shares of a particular class may only be evidenced otherwise than by a certificate where that class of shares is for the time being a participating class. The Directors may also, subject to compliance with the Uncertificated Securities Regulations and the rules of any

relevant system, determine at any time that title to shares of any class may from a date specified by the Directors no longer be evidenced otherwise than by a certificate or that title to shares of such a class shall cease to be transferred by means of any particular relevant system. For the avoidance of doubt, shares which are uncertificated shares shall not be treated as forming a class of shares which are separate from certificated shares with the same rights.

(B) In relation to a class of shares which is, for the time being, a participating class and for so long as it remains a participating class, no provision of these Articles shall apply or have effect to the extent that it is inconsistent in any respect with:

(i) the holding of shares of that class in uncertificated form;

(ii) the transfer of title to shares of that class by means of a relevant system; and

(iii) any provision of the Uncertificated Securities Regulations.

(C) Shares of a class which is for the time being a participating class may be changed from uncertificated form, and from certificated to uncertificated form, in accordance with and subject as provided in the Uncertificated Securities Regulations and the rules of any relevant system, and the Directors shall record on the register of members that the shares are held in certificated or uncertificated form as appropriate.

16. Certificated shares

(A) Subject to the provisions of the Uncertificated Securities Regulations, the rules of any relevant system and the Articles, every person (except a person to whom the Company is not by law required to issue a certificate) whose name is entered as a member in the register of members in respect of any shares of any one class upon the issue or transfer thereof shall be entitled without payment to a certificate therefor: (i) in the case of issue, within one month (or such longer period as the terms of issue shall provide) after allotment; or (ii) in the case of a transfer of fully paid shares, within fourteen days after lodgement of a transfer or receipt of the relevant Operator-instruction by the Company; or (iii) in the case of a transfer of partly paid shares within two months after lodgement of a transfer or receipt of the relevant Operator-instruction by the Company; or (iv) or upon payment of such reasonable charge (if any) for every certificate after the first as the Directors shall from time to time determine to several certificates, each for one or more of his shares of any class.

(B) The Company shall not be bound to register more than four persons as the joint holders of a share and in the case of a share held jointly by several persons the Company shall not be bound to issue more than one certificate for each class of shares so held and delivery of a certificate to one of such persons shall be deemed sufficient delivery to all.

(C) A member who has transferred some but not all of the shares comprised in a share certificate shall be entitled to a certificate for the balance without charge.

17. Authentication and form of certificates

Every certificate for shares or debentures or other securities of the Company shall (except to the extent that the terms and conditions for the time being relating thereto otherwise provide) be issued under the Seal (or, in the case of shares on a branch register, an official seal for use in the relevant territory) and (subject as hereinafter provided) shall bear the autographic signatures at least of one Director and the Secretary. Provided that the Directors may by resolution determine, either generally or in any particular case or cases, that such signatures or either of them shall be dispensed with or shall be affixed by some method or system of mechanical signature or that certificates may be signed or authenticated by some other person or persons. Every such certificate shall specify the number and class of shares, debentures or other securities to which it relates and the amount paid up thereon. No

certificate shall be issued representing shares, debentures or other securities of more than one class. No certificate need be issued in respect of shares, debentures or other securities held by a recognised clearing house or a nominee of a recognised clearing house or of a recognised investment exchange or any other person in respect of whom the Company is not required by law to complete and have ready for delivery a certificate as provided herein. Notwithstanding the foregoing provisions of this Article, the Directors may by resolution determine, either generally or in any particular case or cases, that certificates for shares, debentures or other securities shall bear the signatures or facsimile signatures of two authorised officers of the Company and need not be issued under the Seal or an official seal.

18. Cancellation and replacement of certificates

(A) Any two or more certificates representing shares of any one class held by any member may at his request be cancelled and a single new certificate for all such shares issued in lieu subject, if the Directors so require, to payment of the reasonable out of pocket expenses of the Company in providing the same.

(B) If any member shall surrender for cancellation a share certificate representing shares held by him and request the Company to issue in lieu two or more share certificates representing such shares in such proportions as he may specify, the Directors may, if they think fit, comply with such request.

(C) If a share certificate shall be damaged, defaced, worn out, or alleged to have been lost, stolen or destroyed, it shall be replaced by a new certificate on request without fee but on such terms (if any) as to evidence and indemnity and to payment of any exceptional out-of-pocket expenses of the Company in investigating the evidence and preparing the indemnity as the Directors may decide and, where it is defaced or worn out, after delivery of the old certificate to the Company.

(D) In the case of shares held jointly by several persons any such request may be made by any one of the joint holders.

CALLS ON SHARES

19. Power to make calls

The Directors may from time to time make calls upon the members in respect of any monies unpaid on their shares (whether on account of the nominal value of the shares or by way of premium) and not by the terms of issue thereof made payable at fixed times. Each member shall (subject to being given at least fourteen days' notice specifying the time or times and place of payment) pay to the Company at the time or times and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine.

20. Time when call made

A call shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed and may be made payable by instalments.

21. Liability of joint holders

The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof.

22. Interest payable

If a sum called in respect of a share is not paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate (not exceeding 5 per cent per annum above the Base Rate, or in the absence of any Base Rate, 20 per cent per annum) as the Directors determine and all expenses that may have been incurred by the

Company by reason of such non-payment, but the Directors shall be at liberty in any case or cases to waive payment of such interest and expenses wholly or in part.

23. Deemed calls

Any sum (whether on account of the nominal value of the share or by way of premium) which by the terms of issue of a share becomes payable upon allotment or at any fixed date shall for all the purposes of the Articles be deemed to be a call duly made and payable on the date on which by the terms of issue the same becomes payable. In the case of non-payment all the relevant provisions of the Articles as to payment of interest and expenses, forfeiture or otherwise shall apply as if such sum had become payable by virtue of a call duly made and notified.

24. Differentiation of calls

The Directors may at any time and from time to time differentiate between the holders as to the amount of calls to be paid and the times of payment.

25. Payment of calls in advance

The Directors may if they think fit receive from any member willing to advance the same all or any part of the monies (whether on account of the nominal value of the shares or by way of premium) uncalled and unpaid upon the shares held by him and such payment in advance of calls shall extinguish *pro tanto* the liability upon the shares in respect of which it is made and upon the monies so received (until and to the extent that the same would but for such advance become payable) the Company may pay interest at such rate (not exceeding the Base Rate or, in the absence of any Base Rate, 12 per cent per annum) as the member paying such sum and the Directors agree upon. The Directors may at any time repay monies paid in advance of calls upon giving to the member not less than one month's notice in writing.

FORFEITURE, SURRENDER AND LIEN

26. Notice requiring payment of calls on default

If a member fails to pay the whole or any part of any call or instalment of a call on the day appointed for payment thereof, the Directors may at any time thereafter during such time as any part of such call or instalment remains unpaid, serve a notice on him requiring payment of so much of the call or instalment as is unpaid together with any accrued interest and any costs, charges and expenses incurred by the Company by reason of such non-payment.

27. Content of notice

The notice shall name a further day (not being less than seven days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment in accordance therewith the shares on which the call was made will be liable to be forfeited.

28. Forfeiture for non-compliance

If the requirements of any such notice as aforesaid are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls, interest, costs, charges and expenses due in respect thereof has been received by the Company, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends declared in respect of the forfeited share and not actually paid before forfeiture. The Directors may accept a surrender of any share liable to be forfeited hereunder. When a share has been forfeited, the Company shall give notice of the forfeiture to the person who was before forfeiture the holder of the share or the person entitled by transmission to the share. No forfeiture will be invalidated by any omission to give such notice. An entry of the fact and date of forfeiture shall be made in the Register of Members.

29. Sale of forfeited shares

A share so forfeited or surrendered shall become the property of the Company and may (subject to the provisions of the Statutes) be sold, re-allotted or otherwise disposed of either to the person who was before such forfeiture or surrender the holder thereof or entitled thereto or to any other person upon such terms and in such manner as the Directors shall think fit and at any time before a sale, re-allotment or disposition the forfeiture or surrender may be cancelled on such terms as the Directors think fit. The Directors may, if necessary, authorise some person to transfer a forfeited or surrendered share to any such other person as aforesaid.

30. Extinction of rights

A member whose shares have been forfeited or surrendered shall cease to be a member in respect of the forfeited or surrendered shares but shall notwithstanding the forfeiture or surrender remain liable to pay to the Company all moneys which at the date of forfeiture or surrender were presently payable by him to the Company in respect of the shares with interest thereon at 5 per cent per annum above the Base Rate or, in the absence of any Base Rate, 20 per cent per annum (or in either case such lower rate as the Directors may approve) from the date of forfeiture or surrender until payment but the Directors may waive payment of such moneys and/or interest either wholly or in part and the Directors may enforce payment without any allowance for the value of the shares at the time of forfeiture or surrender.

31. Company to have lien on shares

The Company shall have a first and paramount lien on every share (not being a fully paid share) for all moneys (whether presently payable or not) called or payable at a fixed time in respect of such share and the Company shall also, insofar as is permitted by the Statutes, have a first and paramount lien on all shares (other than fully paid shares) standing registered in the name of a single member for all the debts and liabilities of such member or his estate to the Company and that whether the same shall have been incurred before or after notice to the Company of any equitable or other interest of any person other than such member and whether the period for the payment or discharge of the same shall have actually arrived or not and notwithstanding that the same are joint debts or liabilities of such member or his estate and any other person, whether a member of the Company or not. The Company's lien (if any) on a share shall extend to all dividends or other moneys payable thereon or in respect thereof. The Directors may waive any lien which has arisen and may declare any share to be exempt wholly or partially from the provisions of this Article.

32. Enforcement of lien by sale

The Company may sell in such manner as the Directors think fit any share on which the Company has a lien, but no sale shall be made unless some sum in respect of which the lien exists is presently payable nor until the expiration of fourteen days after a notice in writing stating and demanding payment of the sum presently payable and giving notice of the intention to sell in default shall have been given to the registered holder for the time being of the share or the person entitled thereto by reason of death or bankruptcy.

33. Application of proceeds

The net proceeds of such sale after payment of the costs of such sale shall be applied in or towards payment or satisfaction of the debts or liabilities in respect whereof the lien exists so far as the same are presently payable and any residue shall (upon surrender to the Company for cancellation of the certificate (if any) for the shares sold and subject to a like lien for debts or liabilities not presently payable as existed upon the shares prior to the sale) be paid to the person entitled to the shares at the time of the sale. For giving effect to any such sale the Directors may authorise some person to transfer the shares sold to, or in accordance with the directions of, the purchaser.

34. Giving effect to the sale

A statutory declaration in writing that the declarant is a Director or the Secretary and that a share has been duly forfeited or surrendered or sold to satisfy a lien of the Company on a date stated in the declaration shall be conclusive evidence of the facts therein stated as against all persons claiming to be entitled to the share. Such declaration and the receipt of the Company for the consideration (if any) given for the share on the sale, re-allotment or disposal thereof together with the share certificate (if any) delivered to a purchaser or allottee thereof shall (subject to the execution of a transfer if the same be required) constitute a good title to the share and the person to whom the share is sold, re-allotted or disposed of shall be registered as the holder of the share and shall not be bound to see to the application of the purchase money (if any) nor shall his title to the share be affected by any irregularity or invalidity in the proceedings in reference to the forfeiture, surrender, sale, re-allotment or disposal of the share.

TRANSFER OF SHARES

35. Transfers

Subject to such of the restrictions of the Articles as may be applicable:

(i) any member may transfer all or any of his uncertificated shares by means of a relevant system in such manner provided for, and subject as provided in the Uncertificated Securities Regulations and the rules of any relevant system, and accordingly no provision of the Articles shall apply in respect of an uncertificated share to the extent that it requires or contemplates the effecting of a transfer by an instrument in writing or the production of a certificate for the share to be transferred; and

(ii) any member may transfer all or any of his certificated shares by an instrument of transfer in any usual form or in any other form which the Directors may approve.

36. Execution of transfers

The instrument of transfer of a certificated share shall be executed by or on behalf of the transferor and (except in the case of fully paid shares) by or on behalf of the transferee. The transferor shall be deemed to remain the holder of the shares concerned until the name of the transferee is entered in the Register of Members in respect thereof. All instruments of transfer which are registered may be retained by the Company.

37. Right to decline to register transfer of partly paid shares

The Directors may in their absolute discretion and without assigning any reason therefor decline to register any transfer of shares (not being fully paid shares) provided that where any such share is listed on the London Stock Exchange, such discretion may not be exercised in such a way as to prevent dealings in the shares of that class from taking place on an open and proper basis. If the Directors refuse to register a transfer they shall within two months after the date on which the transfer was lodged with the Company or, in the case of uncertificated shares, within two months after the date on which the relevant Operator-instruction is received, send to the transferee notice of the refusal.

38. Further rights to decline to register transfer

(A) The Directors may only decline to register a transfer of an uncertificated share in the circumstances set out in the Uncertificated Securities Regulations, and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertificated share is to be transferred exceeds four.

(B) The Directors may decline to register any transfer of a certificated share unless:

(i) the instrument of transfer is lodged at the Transfer Office or at such other place as the Directors may from time to time determine accompanied by the certificate for the shares to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;

(ii) the instrument of transfer is in respect of only one class of share; and

(iii) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four.

39. No fee payable for registration of transfers

No fee will be charged by the Company in respect of the registration of any instrument of transfer or confirmation or probate or letter of administration or certificate of marriage or death or power of attorney or other document relating to or affecting the title to any shares or otherwise for making any entry in the Register of Members affecting the title to any shares.

DESTRUCTION OF DOCUMENTS

40. Destruction of documents

The Company shall be entitled to destroy (a) all share certificates which have been cancelled at any time after the expiration of one year from the date of such cancellation, and (b) all notifications of change of name and address and all dividend mandates which have been cancelled or have ceased to have effect at any time after the expiration of two years from the date of the recording of such notification or, as the case may be, the date of such cancellation or cessation, and (c) all instruments of transfer of shares which have been registered at any time after the expiration of six years from the date of registration thereof, and (d) any other documents on the basis of which any entry in the Register of Members has been made at any time after the expiration of six years from the date of the first entry in the Register of Members in respect thereof, and it shall conclusively be presumed in favour of the Company that every entry in the Register of Members purporting to have been made on the basis of an instrument of transfer or other document so destroyed was duly and properly made and that every instrument of transfer so destroyed was a valid and effective instrument duly and properly registered and every share certificate so destroyed was a valid and effective document duly and properly cancelled and every other document hereinbefore mentioned so destroyed was a valid and effective document in accordance with the recorded particulars thereof in the books or records of the Company.

Provided always that:

(i) The provisions aforesaid shall apply only to the destruction of a document in good faith and without express notice of any claim (regardless of the parties thereto) to which the document might be relevant;

(ii) Nothing herein contained shall be construed as imposing upon the Company any liability in respect of the destruction of any such document earlier than as aforesaid or in any other circumstances which would not attach to the Company in the absence of this Article;

(iii) References herein to the destruction of any document include references to the disposal thereof in any manner.

TRANSMISSION OF SHARES

41. Transmission

In case of the death of a registered shareholder, the survivors or survivor where the deceased was a joint holder, and the executors or administrators of the deceased where he was a sole or only surviving holder, shall be the only persons recognised by the Company as having any title to his interest in the shares, but nothing in this Article shall release the estate of a deceased holder (whether sole or joint) from any liability in respect of any share solely or jointly held by him.

42. (A) Registration on death, bankruptcy, etc

Subject to the provisions of the preceding Article any person becoming entitled to a share in consequence of the death or bankruptcy of a member or otherwise by operation of law may (subject as provided elsewhere in the Articles) upon such evidence being produced as may from time to time properly be required by the Directors (and in the case of shares in uncertificated form, subject to the facilities and requirements of the relevant system) either (a) be registered as holder of the share in a representative capacity or (b) be registered himself as holder of the share or (c) transfer such share to some other person. The Directors shall, in any case, have the same right to decline or suspend registration as they would have had in the case of a transfer of the share by that member before his death, bankruptcy or other event giving rise to the transmission of his entitlement by operation of law, as the case may be.

(B) Election for registration

The intimation to the Company, by or on behalf of any person becoming entitled to a share in accordance with paragraph (A) of this Article, of the evidence therein required shall be deemed to be a request by such person to be registered as holder of the share in a representative capacity unless such person shall otherwise elect as aftermentioned, provided always that such registration shall not impose any personal liability upon such person in respect of the share. If the person so becoming entitled shall elect to be registered himself, he shall deliver or send to the Company a notice in writing in a form acceptable to the Directors signed by him stating that he so elects and if he shall elect to have another person registered he shall testify his election by, in respect of shares in certificated form, executing to that person a transfer of the share or, in respect of shares in uncertificated form, making such other arrangements as are consistent with the Uncertificated Securities Regulations and the facilities and requirements of the relevant system for their transfer to such person. All the limitations, restrictions and provisions of the Articles relating to the right to transfer and the registration of transfers of shares shall be applicable to any such notice or transfer as aforesaid as if the death or bankruptcy of the member, or other event giving rise to the transmission of his entitlement by operation of law, had not occurred and the notice or transfer were a transfer signed by that member.

43. Rights of persons entitled by transmission

Save as otherwise provided by or in accordance with the Articles, a person becoming entitled to a registered share in consequence of the death or bankruptcy of a member or otherwise by operation of law (upon supplying to the Company such evidence as the Directors may reasonably require to show his title to the share) shall be entitled to the same dividends and other advantages as those to which he would be entitled if he were the registered holder of the share except that he shall not be entitled in respect thereof (except with the authority of the Directors) to exercise any right conferred by membership in relation to meetings of the Company until he shall have been registered as a member in respect of the share; Provided that the Directors may at any time give notice requiring such person to elect either to be registered or to transfer the share and, if the notice is not complied with within such period (being not less than 42 days) as the Directors may fix, the Company may thereafter:

(a) withhold payment of all dividends and other monies payable in respect of the share (but any such action shall not constitute the Company a trustee in respect of any such

dividends or other monies) and suspend any other advantages to which such person would otherwise be entitled in respect of the share until the requirements of the notice have been complied with; and/or

(b) sell the share at the best price reasonably obtainable in such manner as the Directors think fit and, subject to the provisions of the Articles generally, the provisions of Article 44(B) shall apply to such sale.

UNTRACED SHAREHOLDERS

44. (A) Power to dispose of shares of untraced shareholders

The Company shall be entitled to sell at the best price then reasonably obtainable the shares of a member or the shares to which a person is entitled by virtue of transmission on death or bankruptcy if and provided that:

(i) during the period of twelve years ending on the date of the publication of the advertisement referred to in sub-paragraph (ii) below (or, if published on different dates, the later or latest thereof) at least three cash dividends (whether interim or final) have become payable on or in respect of the shares in question but all dividends or other moneys payable on or in respect of such shares during such period remain unclaimed; and

(ii) the Company shall have inserted an advertisement in at least two newspapers with a national circulation in the United Kingdom and one newspaper circulating in the area in which the last known address of the member or the address at which service of notices upon such member or other person may be effected in accordance with the Articles is located, giving notice of its intention to sell the said shares; and

(iii) during the said period of twelve years and the period of three months following the date of the publication of the said advertisement (or, if published on different dates, the later or latest thereof) the Company shall have received indication neither of the whereabouts nor of the existence of such member or person; and

(iv) if the shares in question are listed on the London Stock Exchange, notice shall have been given to the London Stock Exchange of the Company's intention to make such sale.

(B) Sale procedure and application of proceeds

To give effect to any such sale the Company may appoint some person to execute as transferor an instrument of transfer of the said shares and such instrument of transfer shall be as effective as if it had been executed by the registered holder of, or person entitled by transmission to, such shares and the title of the transferee shall not be affected by any irregularity or invalidity in the proceedings relating thereto. The Directors may authorise the conversion of shares to be sold which are certificated shares into uncertificated shares, and vice versa (so far as is consistent with the Uncertificated Securities Regulations and the facilities and requirements of the relevant system) for their transfer to, or in accordance with the directions of, the transferee. The net proceeds of sale shall belong to the Company which shall be obliged to account to the former member or other person previously entitled as aforesaid for an amount equal to such proceeds and shall enter the name of such former member or other person in the books of the Company as a creditor for such amount. No trust shall be created in respect of the debt, no interest shall be payable in respect of the same and the Company shall not be required to account for any money earned on the net proceeds, which may be employed in the business of the Company or invested in such investments (other than shares of the Company or its holding company if any) as the Directors may from time to time think fit.

GENERAL MEETINGS

45. Types of general meetings

An Annual General Meeting shall be held once in every year, at such time (subject to the Statutes) and place as may be determined by the Directors.

46. Directors' power to call general meetings

The Directors may whenever they think fit, and shall on requisition in accordance with the Statutes, proceed to convene a General Meeting. The Directors shall determine the means by which persons entitled to attend and participate in a General Meeting shall be permitted to do so in accordance with Article 53. Such means shall include attendance and participation at a physical meeting place and, as determined by the Directors, whether simultaneous attendance and participation shall be permitted at a satellite meeting place and/or by electronic means.

47. Application to class meeting where no variation of rights involved

The provisions of the Articles relating to General Meetings shall apply, with necessary modifications, to any separate meeting of the holders of any class of shares of the Company held otherwise than in connection with the variation or abrogation of the rights attached to shares of the class. All matters to be resolved at any such separate meeting shall, unless otherwise required by the Articles or by statute, be resolved by Special Resolution, meaning for the purposes of this Article a resolution duly passed by a majority consisting of not less than three-quarters of the votes given upon the resolution at such meeting of which notice specifying the intention to propose the resolution as a Special Resolution shall have been duly given.

NOTICE OF GENERAL MEETINGS

48. Period of notice

Subject to the Statutes, an Annual General Meeting shall be called by not less than twenty one days' notice, and any other General Meeting shall be called by not less than fourteen days' notice or by not less than such minimum notice period as is permitted by the Statutes (exclusive in every case of the day on which it is served or deemed to be served and of the day for which it is given), given in manner specified in the Articles to the auditors and to all members other than such as are not under the provisions of the Articles entitled to receive such notices from the Company: Provided that a General Meeting notwithstanding that it has been called by a shorter notice than that specified above shall be deemed to have been duly called if it is so agreed:

(A) in the case of an Annual General Meeting, by all the members entitled to attend and vote thereat; and

(B) in the case of any other General Meeting by a majority in number of the members having a right to attend and vote thereat being a majority together holding not less than 95 per cent in nominal value of the shares giving that right.

A notice of General Meeting may specify a time, being not more than 48 hours before the time fixed for the meeting, by which a person must be entered on the Register of Members in order to have the right to attend or vote at the meeting. Changes made to the entries on the Register of Members after the time so specified shall be disregarded in determining the rights of any person to attend or vote at the meeting. In calculating the abovementioned period of 48 hours, no account shall be taken of any part of a day that that is not a working day (within the meaning of section 1173 of the 2006 Act).

49. Contents of notice

(A) Every notice calling a General Meeting shall specify the place and the day and hour of the meeting, and there shall appear with reasonable prominence in every such notice a statement that a member entitled to attend and vote is entitled to appoint a proxy to exercise all or any of his rights to attend and to speak and vote at the meeting and that a proxy need not be a member of the Company.

(B) In the case of an Annual General Meeting, the notice shall also specify the meeting as such.

(C) In cases where forms of appointment of proxy are sent out with notices, the accidental omission to send such forms of appointment of proxy to, or the non-receipt of such forms of appointment of proxy by, any person entitled to receive notice shall not invalidate the proceedings at any General Meeting.

(D) In the case of any General Meeting at which business other than routine business is to be transacted, the notice shall specify the general nature of such business; and if any resolution is to be proposed as a Special Resolution, the notice shall contain a statement to that effect.

(E) In the case of a General Meeting at which the Directors have resolved persons shall be entitled to attend and participate simultaneously at a satellite meeting place or places in accordance with Article 53, the notice shall state the location of such satellite meeting place(s).

(F) In the case of a General Meeting at which the Directors have resolved persons shall be entitled to attend and participate simultaneously by electronic means in accordance with Article 53, the notice shall state the means of attendance and participation as determined by the Directors and any access, identification and security arrangements determined by the Directors in accordance with the Articles.

50. Routine business

Routine business shall mean and include only business transacted at an Annual General Meeting of the following classes, that is to say:

(A) sanctioning or declaring dividends;

(B) considering and adopting the accounts, the reports of the Directors and Auditors and other documents required to be annexed to the accounts;

(C) re-appointing the retiring Auditors (unless they were last appointed otherwise than by the Company in General Meeting);

(D) fixing the remuneration of the Auditors or determining the manner in which such remuneration is to be fixed;

(E) appointing or re-appointing Directors to fill vacancies arising at the meeting on retirement by rotation or otherwise.

51. Notice of resolutions

The Directors shall on the requisition of members in accordance with the provisions of the Statutes, but subject as therein provided:

(A) Give to the members entitled to receive notice of the next Annual General Meeting, notice of any resolution which may properly be moved and is intended to be moved at that meeting;

(B) Circulate to the members entitled to have notice of any General Meeting, any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

52. Postponement of general meetings

If the Directors, in their absolute discretion, consider that it is impractical or unreasonable for any reason to hold a General Meeting on the date or at the time or place specified in the notice calling the General Meeting (or to permit participation and attendance at any of the declared satellite meeting place(s) and/or by any electronic means specified in the notice calling the General Meeting), they may postpone the General Meeting to another date, time and place (which may include participation and attendance at any satellite meeting place(s) and/or by any electronic means). When a meeting is so postponed, notice of the date, time and place of the postponed meeting (and of any satellite meeting place(s) and/or details of participation by electronic means) shall be placed in at least two newspapers with a national circulation in the United Kingdom. Notice of the business to be transacted at such postponed meeting shall not be required.

PROCEEDINGS AT GENERAL MEETINGS

53. Meetings at more than one place and/or participation by electronic means

(A) Provided a physical meeting has also been proposed, the Directors may resolve to enable persons entitled to attend and participate in such meeting to do so:

(1) by simultaneous attendance and participation at a satellite meeting place or places anywhere in the world; and/or

(2) by simultaneous attendance and participation by electronic means.

(B) A General Meeting may be held at more than one place if:

(1) the notice convening the meeting specifies that it shall be held at more than one place; or

(2) the Directors resolve, after the notice convening the meeting has been given, that the meeting shall be held at more than one place; or

(3) it appears to the chairman of the meeting that the place of the meeting specified in the notice convening the meeting is inadequate to accommodate all persons entitled and wishing to attend.

(C) Attendance at a General Meeting may be partly by electronic means if:

(1) the notice convening the meeting specifies the instructions for participation by electronic means; or

(2) the Directors resolve, after the notice convening the meeting has been given, that participation in the meeting by electronic means may be permitted,

and where the Directors resolve to enable persons to attend and participate by electronic means the Directors shall determine in their absolute discretion the form and adequacy of such electronic means.

(D) A General Meeting held at more than one place and/or partly by electronic means is duly constituted and its proceedings are valid if (in addition to the other provisions of the Articles relating to General Meetings being satisfied) the chairman of the meeting is satisfied that facilities (whether electronic or otherwise) are available to enable each person present at each place to participate in the business of the meeting.

(E) Each person present who would be entitled to count towards the quorum in accordance with the provisions of Article 54 shall be counted in the quorum for, and shall be entitled to vote at, the meeting. The inability, for any reason, of any person entitled to attend any meeting place and/or participate in the business of the meeting by way of electronic means will not invalidate the proceedings of that meeting. The meeting is deemed to take place at the place at which the chairman of the meeting is present (the "principal place").

(F) If it appears to the chairman of the meeting that the facilities at the principal place or any other meeting place or to facilitate participation by electronic means have become inadequate for the purposes referred to in paragraph (D) above, then the chairman of the meeting may, in his absolute discretion, without the consent of the meeting, interrupt or adjourn the meeting. All business conducted at that meeting up to the time of that adjournment shall be valid. The provisions of Articles 60 and 61 shall apply to such adjournment.

(G) The Directors may, for the purpose of facilitating the organisation and administration of any General Meeting to which such arrangements apply, from time to time make arrangements, whether involving the issue of tickets (on a basis intended to afford all members and proxies entitled to attend the meeting an equal opportunity of being admitted to the principal place) or the imposition of some random means of selection or otherwise as they shall in their absolute discretion consider to be appropriate, and may from time to time vary any such arrangements or make new arrangements in their place and the entitlement of any member or proxy to attend a General Meeting at the principal place shall be subject to the arrangements as may be for the time being in force whether stated in the notice of meeting to apply to that meeting or notified to the members concerned subsequent to the provision of the notice of the meeting.

54. Quorum

No business other than the appointment of a chairman of the meeting shall be transacted at any General Meeting unless a quorum is present at the time when the meeting proceeds to business. Five members present and entitled to vote at such meeting shall be a quorum for all purposes.

55. If quorum not present

If within fifteen minutes from the time appointed for a General Meeting (or such longer time not exceeding one hour as the chairman of the meeting may determine to wait) a quorum is not present, the meeting, if convened on the requisition of members, shall be dissolved. In any other case it shall stand adjourned to such other day and at such other time and place and with such other means of participation (including any satellite meeting place or places and/or by electronic means) as may have been specified for the purpose in the notice convening the meeting or (if not so specified) as the chairman of the meeting may determine; in the latter case (subject to Section 307A(7) of the 2006 Act), not less than seven days' notice of the adjourned meeting shall be given in like manner as in the case of the original meeting. If at such adjourned meeting a quorum is not present within fifteen minutes from the time appointed for holding the meeting, the members present in person or by proxy and entitled to vote at such meeting shall be a quorum.

56. Security arrangements

The Directors may direct that persons wishing to attend any General Meeting should submit to such searches or other security arrangements or restrictions as the Directors shall consider appropriate in the circumstances and shall be entitled in their absolute discretion to, or to authorise one or more persons who shall include a Director or the Secretary or the chairman of the meeting to, refuse entry to, or to eject from, such General Meeting any person who fails to submit to such searches or to otherwise comply with such security arrangements or restrictions, including whether participating at a satellite meeting place or places and/or by electronic means.

57. Chairman

The Chairman of the Directors, failing whom one of any Deputy Chairmen failing whom one of any Vice-Chairmen (to be chosen, if more than one are present and in default of agreement amongst themselves, by lot) shall preside as chairman at a General Meeting. If there be no such Chairman or Deputy Chairman or Vice-Chairman, or if at any meeting none of them be present within fifteen minutes after the time appointed for holding the meeting and willing to act, the Directors present shall choose one of their number (or, if no Director be present or if all the Directors present decline to take the chair, the members present and entitled to vote at such meeting shall choose one of their number) to be chairman of the meeting. The chairman of the meeting who presides pursuant to this Article may, at any time during a General Meeting of the Company, nominate any Director of the Company to be the chairman of the meeting for the remainder of or for any part of the meeting.

58. Orderly Conduct

The chairman of the meeting shall take such action as he thinks fit to promote the orderly conduct of the business of the meeting as laid down in the notice of the meeting and the chairman's decision, taken in good faith, on matters of procedure or arising incidentally from the business of the meeting shall be final as shall be his determination as to whether any matter is of such a nature. Where the Directors resolve to enable persons to attend and participate in a meeting by simultaneous attendance and participation by electronic means pursuant to Article 53, the Directors or the chairman of the meeting may make any arrangement or impose any restriction they or he considers appropriate to ensure the identification of those participating in the meeting by electronic means and the security of the electronic communications. Any such arrangement or restriction must, in the opinion of the Directors or the chairman of the meeting (as relevant), be proportionate to achieving the objective of this Article 58.

59. Entitlement to attend and speak

Each Director shall be entitled to attend and speak at any General Meeting of the Company and at any separate General Meeting of the holders of any class of shares in the Company. The chairman of the meeting may invite any person to attend and speak at any General Meeting of the company whom the chairman of the meeting considers to be equipped by knowledge or experience of the Company's business to assist in the deliberations of the meeting.

60. Adjournments

The chairman of the meeting may with the consent of any General Meeting at which a quorum is present (and shall if so directed by the meeting) adjourn the meeting from time to time (or *sine die*) and from place to place, with such other means of simultaneous attendance and participation as the chairman of the meeting may determine. In addition, the chairman of the meeting may at any time without the consent of the meeting adjourn the meeting (whether or not it has commenced or a quorum is present) to another time and/or place (or, in the case of a meeting held at more than one place, other places), with such other means of simultaneous attendance and participation as the chairman of the meeting may determine, where it appears to him that (a) the members wishing to attend cannot be conveniently accommodated in the place appointed for the meeting, (b) the conduct of persons present prevents or is likely to prevent the orderly continuation of business or, (c) adjournment is otherwise necessary so that the business of the meeting may be properly conducted. Nothing in this Article shall limit any other power vested in the chairman to adjourn the meeting. No business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting from which the adjournment took place.

The chairman of the meeting may adjourn the meeting notwithstanding that by reason of such adjournment some members may be unable to be present at the adjourned meeting. Any such member may nevertheless (without prejudice to the other provisions of the Articles)

execute a form of proxy for the adjourned meeting which, if delivered by him to the chairman of the meeting or the Secretary of the Company, shall be valid even though it is given at less notice than would otherwise be required by the Articles.

61. Time and place of adjourned meetings

When a meeting is adjourned *sine die*, the time and place, and (if applicable) means of simultaneous participation and attendance at a satellite meeting place or places and/or by way of electronic means, for the adjourned meeting shall be fixed by the Directors. When a meeting is adjourned for 30 days or more or *sine die* not less than seven days' notice of the adjourned meeting shall be given in like manner as in the case of an original meeting. Save as aforesaid and save as expressly provided in Article 55, it shall not be necessary to give any notice of an adjournment or of the business to be transacted at an adjourned meeting.

62. Amendments to resolutions

If an amendment shall be proposed to any resolution under consideration but shall in good faith be ruled out of order by the chairman of the meeting the proceedings on the substantive resolution shall not be invalidated by any error in such ruling. In the case of a resolution duly proposed as a Special Resolution no amendment thereto (other than a mere clerical amendment to correct a patent error) may in any event be considered or voted upon. In the case of a resolution duly proposed as an Ordinary Resolution no amendment thereto (other than an amendment to correct a patent error) may be considered or voted upon unless either at least forty-eight hours prior to the time appointed for holding the meeting or adjourned meeting at which such Ordinary Resolution is to be proposed notice in writing of the terms of the amendment and intention to move the same has been lodged at the Office or the chairman of the meeting decides in his absolute discretion that it may be considered or voted upon.

63. Method of voting

Unless the Directors otherwise determine, a vote on a resolution at a General Meeting shall be taken and decided on a poll. Any votes on a poll may be cast by such means as the Directors in their sole discretion consider appropriate. If the Directors determine that a resolution is to be put to the vote at any General Meeting on a show of hands, a poll may be demanded, before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll as hereinafter mentioned, by:

(A) the chairman of the meeting; or

(B) not less than three members present personally or by proxy and entitled to vote: or

(C) the depository for the time being under any deposit agreement between the Company and such depository providing for the deposit of any New Preference Shares, provided such depository is present in person and entitled to vote; or

(D) a member or members present personally or by proxy and representing not less than one tenth of the total voting rights of all the members having the right to vote at the meeting; or

(E) a member or members present personally or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one tenth of the total sum paid up on all the shares conferring that right.

64. Declaration of result and conduct of poll

A demand for a poll may be withdrawn only with the approval of the chairman of the meeting and if it is so withdrawn:

(a) before the result of a show of hands is declared, the meeting shall continue as if the demand had not been made; or

(b) after the result of a show of hands is declared, the demand shall not be taken to have invalidated the result,

but if a demand is withdrawn, the chairman of the meeting or other member or members so entitled may himself or themselves demand a poll. Unless a poll be duly demanded (and the demand be not withdrawn), a declaration by the chairman of the meeting that a resolution has been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the minute book, shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded for or against such resolution. If a poll is duly demanded (and the demand be not withdrawn), it shall be taken in such manner (including the use of ballot or voting papers or tickets) as the chairman of the meeting may direct, and the result of a poll shall be deemed to be the resolution of the meeting at which the poll was demanded. The chairman of the meeting may (and if so directed by the meeting shall) appoint scrutineers and may adjourn the meeting to some place (including at any satellite meeting place or places and/or permit participation and attendance by electronic means) and time fixed by him for the purpose of declaring the result of the poll.

65. When poll to be taken

A poll demanded on the election of a chairman of the meeting or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken either immediately or at such subsequent time (being not more than thirty days after the date of the meeting at which the poll was demanded) and place (which may include participation and attendance at any satellite meeting place or places and/or by any electronic means) as the chairman of the meeting may direct. No notice need be given of a poll not taken immediately.

66. Continuance of meeting

The demand for a poll shall not prevent the continuance of a meeting for the transaction of any business other than the question on which the poll has been demanded.

VOTES OF MEMBERS

67. Right to vote

Subject to any special rights or restrictions as to voting attached by or in accordance with the Articles to any class of shares and to the provisions of the Articles, on a show of hands every member who is present personally, and every proxy present who has been duly appointed by a member entitled to vote on the resolution, shall (subject to Section 285(2) of the 2006 Act) have one vote and on a poll every member who is present personally or by proxy shall have, in respect of the Ordinary Shares, four votes for each Ordinary Share held by such member, and in respect of the Cumulative Preference Shares, one vote for each 25p in nominal amount of the shares held by such member.

68. Votes of joint holders

In the case of joint holders of a share the vote of the senior who tenders a vote, whether personally or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the Register of Members in respect of the joint holding.

69. Member under incapacity

A member who is a patient for any purpose of any statute relating to mental health or in respect of whom an order has been made by any court having jurisdiction for the protection or management of the affairs of persons incapable of managing their own affairs, may vote, whether on a show of hands or on a poll, by his committee, receiver, *curator bonis* or other person in the nature of a committee, receiver or *curator bonis* appointed by such court, and any such committee, receiver, *curator bonis* or other person may vote by proxy, provided that such evidence as the Directors may require of the authority of the person claiming to vote shall have been deposited at the Transfer Office, or at such other place (if any) as is specified for the delivery of instruments of proxy in accordance with the Articles, not later than the latest time for delivery or receipt of appointments of proxy under Article 75.

70. Calls in arrears

No member shall, unless the Directors otherwise determine, be entitled in respect of shares held by him to vote at a General Meeting either personally or by proxy or to exercise any other right conferred by membership in relation to meetings of the Company if any call or other sum presently payable by him to the Company in respect of shares in the Company remains unpaid.

71. Objection to voting

If (i) any objection shall be raised to the qualification of any person to vote or to the admissibility of any vote or (ii) any votes have been counted which ought not to have been counted or which might have been rejected or (iii) any votes are not counted which ought to have been counted, the objection or error shall not vitiate the decision of the meeting or adjourned meeting on any resolution unless the same is raised or pointed out at the meeting or, as the case may be, the adjourned meeting at which the vote objected to is given or tendered or at which the error occurs. Any objection or error raised or pointed out in due time shall be referred to the chairman of the meeting and shall only vitiate the decision of the meeting on any resolution if the chairman of the meeting decides that the same may have affected the decision of the meeting. The decision of the chairman of the meeting on such matters shall be final and conclusive.

72. Votes on a poll

On a poll votes may be given either personally or by proxy and a person entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

73. Proxy need not be a member

A proxy need not be a member of the Company.

74. Form and execution of proxies

An appointment of a proxy shall be in any usual or common form or in any other form which the Directors may prescribe or accept and, in the case of an instrument in writing:

(a) in the case of an individual shall be signed by the appointor or by his attorney; and

(b) in the case of a corporation shall be either given under its common seal or executed in any manner prescribed by the Statutes to have the same effect as if given under the common seal of the corporation or signed on its behalf by an attorney or duly authorised officer of the corporation.

The Directors may, but shall not be bound to, require evidence of the authority of any such attorney or officer. The signature on such instrument need not be witnessed.

In addition the Directors may determine that a proxy may be appointed by telephone, fax, electronic means or by means of a website, subject to such terms and conditions relating thereto as they may impose and to the Statutes.

A member may appoint more than one proxy in relation to a General Meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member.

Without limiting the foregoing, in relation to any shares in uncertificated form, the Directors may permit a proxy to be appointed by electronic means and/or by means of a website in the form of an uncertificated proxy instruction (that is, a properly authenticated dematerialised instruction, and/or other instruction or notification, sent by means of a relevant system to such participant in that system acting on behalf of the Company as the Directors may prescribe, in such form and subject to such terms and conditions as may from time to time be prescribed by the Directors (subject always to the facilities and requirements of the relevant system)); and may permit any supplement to, or amendment or revocation of, any such uncertificated proxy instruction to be made by a further uncertificated proxy instruction. The Directors may in addition prescribe the method of determining the time at which any such instruction or notification is to be treated as received by the Company. The Directors may treat any such instruction or notification purporting or expressed to be sent on behalf of a holder of a share as sufficient evidence of the authority of the person sending the instruction to send it on behalf of that holder.

75. Delivery of forms of proxy

(A) An appointment of a proxy (together with any evidence of authority required by the Directors pursuant to the immediately preceding Article) must:

(a) in the case of an instrument in writing, be delivered to such place or one of such places (if any) as may be specified for that purpose in, or by way of note to, or in any documents accompanying, the notice convening the meeting or any notice of any adjournment (or, if no place is so specified, to the Transfer Office); and

(b) in the case of an appointment made by electronic means, be received at such address as may have been specified for that purpose in (i) the notice convening the meeting or notice of any adjournment, (ii) any instrument of proxy sent out by the Company in relation to the meeting or adjourned meeting, or (iii) any invitation to appoint a proxy issued by the Company in relation to the meeting or adjourned meeting,

in each case not later than:

(1) in the case of a meeting or adjourned meeting, forty-eight hours before the time appointed for the holding of the meeting or adjourned meeting;

(2) in the case of a poll taken more than forty-eight hours after it is demanded, not later than twenty-four hours before the time appointed for the taking of the poll, and

(3) in the case of a poll not taken during the meeting or adjourned meeting but taken not more than forty-eight hours after it was demanded, (i) in accordance with sub-paragraph (1) above, or (ii) at the meeting or adjourned meeting at which the poll was demanded to the chairman of the meeting, Secretary or any Director,

and, subject to paragraph (B) of this Article, in default shall not be treated as valid; provided that an appointment of a proxy relating to more than one meeting (including any adjournment thereof) having once been so delivered or received for the purposes of any meeting shall not require again to be delivered or received in relation to any

subsequent meetings to which it relates. No appointment of a proxy shall be valid after the expiration of twelve months from the date stated in it as the date of its execution or, in the case of an appointment contained in a document sent by electronic means, the date it was sent.

(B) A Director, the Secretary or some person authorised for the purpose by the Secretary may, in the case of an instrument appointing a proxy in writing:

(a) accept a photocopy, or a copy delivered by facsimile transmission, of the instrument appointing the proxy (and of the power of attorney (if any) under which it is signed, or a copy of such authority certified notarially or in some other way approved by the Directors); and/or

(b) accept an instrument appointing a proxy which has not been properly executed or is not supported by the relevant documents as required by paragraph (A) of this Article

as a valid instrument of proxy where such person determines, in good faith, that the documents deposited indicate in sufficient detail the member's intention to appoint a proxy.

(C) The Directors may in their discretion determine that in calculating the latest time for delivery or receipt of an appointment of a proxy under paragraph (A) above, no account shall be taken of any part of a day that is not a working day (within the meaning of Section 1173 of the 2006 Act).

76. Differing proxies

When two or more valid but differing appointments of proxy are delivered in respect of the same share for use at the same meeting, the one which is last delivered or received (regardless of its date or of the date of its execution) shall be treated as replacing and revoking the others as regards that share and if the Company is unable to determine which was last delivered or received, the chairman of the meeting shall determine, taking account of such matters as he considers appropriate, which appointment shall be treated as valid, or whether any of them are valid, and his decision shall be final and conclusive.

77. Issue of forms of proxy

Subject to the provisions of the Statutes, the Directors may, if they think fit, at the expense of the Company, issue forms of proxy for use by the members with or without prepaid postage and with or without inserting therein the names of any of the Directors or any other person as proxies.

78. Rights conferred by form of proxy

An appointment of a proxy shall be deemed to include the right to demand or join in demanding a poll, and shall be deemed to confer authority to vote on any resolution or amendment of a resolution put to the meeting for which it is given (including, for the avoidance of doubt, any resolution which properly comes before the meeting where notice of the same was not included in the notice of the meeting nor specific reference thereto made in the appointment of a proxy) as the proxy thinks fit. An appointment of a proxy shall, unless the contrary is stated thereon, be valid as well for any adjournment of the meeting as for the meeting to which it relates.

79. Intervening events etc

(A) A vote cast by proxy shall not be invalidated by the previous death or insanity of the principal or by the revocation of the appointment of proxy or of the authority under which the appointment was executed provided that no intimation of such death, insanity or revocation shall have been received by the Company at the Transfer Office

or such other place (if any) as is specified for the delivery of instruments of proxy or, in the case of an appointment of proxy contained in a document sent in electronic form, at the address at which such appointment was duly received, in each case in accordance with the Articles prior to one hour before the commencement of the meeting or adjourned meeting or (in the case of a poll taken otherwise than at, or on the same day as, the meeting or adjourned meeting) the time appointed for the taking of the poll at which the vote is cast.

(B) A vote given or poll demanded by proxy or by a representative of a corporation shall be valid notwithstanding that he has not voted in accordance with any instructions given by the member by whom he is appointed. The Company is not bound to check or ensure that a person appointed as a proxy or representative of a corporation has in fact voted (or abstained from voting) in accordance with any such member's instructions.

RESTRICTIONS ON VOTING AND OTHER SHARE RIGHTS

80. (A) Disenfranchisement

Without prejudice to any other rights or remedies of the Company where, in respect of any shares in the Company ("the default shares", which expression shall include any further shares which are allotted or issued in respect of such shares), any holder of such shares or other person appearing to be interested in such shares fails to comply with any notice (in this Article called a "statutory notice") given to that holder or other person by the Company pursuant to Part 22 of the 2006 Act or, in purported compliance with such a statutory notice, makes a statement which is false in a material particular, then not earlier than fourteen days after the service of such statutory notice, the Directors may serve upon such holder a notice (in this Article called a "disenfranchisement notice") stating or to the effect that the default shares and, if the Directors so determine, any other shares held by the holder shall from the service of the disenfranchisement notice confer on him, and on any transferee to which any of such shares are transferred other than pursuant to an approved transfer (as defined in paragraph (D) of this Article) or pursuant to paragraph (B)(i) of this Article, no right to attend or vote, in person or by proxy, either at any General Meeting of the Company or at any separate General Meeting of the holders of the shares of the relevant class or to exercise any other right conferred by membership in relation to any such meeting.

(B) Other restrictions

Where the default shares are Ordinary Shares representing at least 0.25 per cent in nominal value of the issued ordinary share capital as at the date of service of the disenfranchisement notice, the disenfranchisement notice may also at the discretion of the Directors (subject in the case of (i) below, to the requirements of the Uncertificated Securities Regulations) direct that:

(i) no transfer of any of the shares held by such holder shall be registered unless (a) such holder is not himself in default as regards supplying the information requested and the transfer is part only of such holder's holding and, when presented for registration, is accompanied by a certificate by such holder in a form satisfactory to the Directors to the effect that, after due and careful enquiry, such holder is satisfied that no person in default as regards supplying such information is interested in any of the shares the subject of the transfer or (b) such transfer is an approved transfer; and/or

(ii) any dividend or other moneys which would otherwise be payable on the default shares shall be retained by the Company in whole or in part without any liability to pay interest thereon when such moneys are finally paid to such holder and the holder shall not be entitled to elect pursuant to Article 132 to receive shares instead of that dividend.

(C) Cessation of disenfranchisement

Any disenfranchisement notice shall have effect in relation to default shares in accordance with its terms but shall cease to have effect:

(i) on the expiry of seven days after the Company has received in writing all information required by it in respect of those default shares pursuant to every statutory notice served on the holder of such shares and each other person appearing to be interested in such shares; or

(ii) when the Company receives notice that an approved transfer to a third party has occurred; or

(iii) if and to the extent that the Directors so determine.

(D) Person interested in shares; approved transfers

For the purposes of this Article 80:

(a) a person shall be treated as appearing to be interested in any shares if the holder of such shares has given to the Company information in pursuance of a notice served under Section 793 of the 2006 Act and either (a) the holder has named such person as being so interested, or (b) (after taking into account the said information and any other relevant information received in pursuance of a notice served under the said Section) the Company knows or has reasonable cause to believe that the person in question is or may be interested in the shares; and

(b) A transfer of Ordinary Shares is an approved transfer if, but only if:

(i) it is a transfer to an offeror by way of or in pursuance of acceptance of a takeover offer (as defined for the purposes of Chapter 3 of Part 28 of the 2006 Act) for the Company; or

(ii) the Directors are satisfied that the transfer is made pursuant to a *bona fide* sale of the whole of the beneficial ownership of the shares to a person unconnected with the holder or with any other person appearing to be interested in such shares (including any such sale made through a recognised investment exchange or any stock exchange outside the United Kingdom on which the Company's ordinary shares (or rights in respect of those shares) are normally traded). For the purposes of this sub-paragraph (ii) any associate (as defined in Section 435 of the Insolvency Act 1986) shall be included amongst the persons who are connected with the holder or any person appearing to be interested in such shares.

CORPORATIONS ACTING BY REPRESENTATIVES

81. Authority of representatives

Any corporation which is a member of the Company may by resolution of its directors or other governing body authorise such person or persons as it thinks fit to act as its representative or representatives at any meeting of the Company or of any class of members of the Company. The Directors or any Director or the Secretary may (but shall not be bound to) require evidence of the authority of any such representative.

DIRECTORS

82. Limit on number of directors

Subject as hereinafter provided the Directors shall not be more than twenty-five in number. The Company may by Ordinary Resolution from time to time vary the maximum number of Directors.

83. Directors need not be members

A Director shall not be required to hold any shares of the Company by way of qualification. A Director who is not a member of the Company shall nevertheless be entitled to receive notice of and attend and speak at General Meetings and all separate meetings of the holders of any class of shares of the Company.

84. Directors' fees

Each of the Directors may be paid a fee at such rate as may from time to time be determined by the Directors provided that the aggregate of all fees so paid to Directors shall not exceed £1,000,000 per annum or such higher amount as may from time to time be decided by ordinary resolution of the Company (whether before or after the date of adoption of the Articles). Such fees shall accrue from day to day and in the case of any Director shall, unless and to the extent that the Directors otherwise determine, be independent of any remuneration to which such Director may be entitled under any other provision of these Articles or in respect of any other office or appointment under the Company or any other company in which the Company may be interested.

85. Expenses

The Directors may repay to any Director all such reasonable expenses as he may incur in attending and returning from meetings of the Directors or of any committee or General Meetings or otherwise in or about the business of the Company or the discharge of his duties as a Director, including (without limitation) any professional fees incurred by him (with the approval of the Directors or in accordance with any procedures stipulated by the Directors) in taking independent advice in connection with the discharge of such duties.

86. Extra remuneration

Any Director who is appointed to any executive office (including for this purpose the office of Chairman or Deputy Chairman or Vice-Chairman whether or not such office is held in an executive capacity) or who serves on any committee or who otherwise performs services which in the opinion of the Directors are outside the scope of the ordinary duties of a Director, may be paid such extra remuneration by way of salary, commission or otherwise as the Directors may determine.

87. (A) Retirement and other benefits

Without prejudice to the general power of the Directors under the Articles to exercise on behalf of the Company (by establishment or maintenance of schemes or otherwise) all the powers of the Company to give or procure the giving of pensions, annuities or other allowances or benefits to or for the benefit of any person, and without restricting the generality of their other powers, the Company and the Directors shall have power to pay and agree to pay pensions or other retirement, superannuation, death or disability benefits or other allowances and benefits to any Director or ex-Director of: (i) the Company; (ii) any company which is a subsidiary undertaking of the Company; (iii) a company which is allied to or associated with the Company or any such subsidiary undertaking; or (iv) any predecessor in business of the Company or any other company as referred to in (ii) and (iii) above and to the husbands, wives, widowers, widows, children, families, dependants and personal representatives of any such Director or ex-Director. For the purpose of providing any such pensions or other benefits, the Company and the Directors shall have power to establish or

contribute to any trust, scheme, association, arrangement or fund or to pay premiums, and shall have power to establish trusts, schemes, associations, arrangements or funds considered to be for the benefit of any such persons aforesaid. A Director or ex-Director shall not be accountable to the Company or the members for any such pension, allowance or other benefit and the receipt of the same shall not disqualify any person from being or becoming a Director of the Company.

(B) Insurance

Without prejudice to the provisions of Article 157, the Directors shall have the power to purchase and maintain insurance for or for the benefit of any persons who are or were at any time directors, officers or employees of the Company, or of any other company which is its holding company or in which the Company or such holding company or any of the predecessors of the Company or of such holding company has any interest, whether direct or indirect, or which is in any way allied to or associated with the Company, or of any subsidiary undertaking of or any other body, whether or not incorporated ("body"), owned by or in which an interest is owned by the Company or any such other company, or who are or were at any time trustees of any pension fund or employees' share scheme in which employees of the Company or any such other company or subsidiary undertaking or body are interested, including (without prejudice to the generality of the foregoing) insurance against any liability incurred by such persons in respect of any act or omission in the actual or purported execution and/or discharge of their duties and/or the exercise or purported exercise of their powers and/or otherwise in relation to or in connection with their duties, powers or offices in relation to the Company or any such other company, subsidiary undertaking, body, pension fund or employees' share scheme.

88. (A) Directors' interests in contracts with the Company

Subject to the provisions of the Statutes and Article 103, a Director or alternate Director may be a customer of the Company or of any of its subsidiary undertakings or be party to or in any way interested in any contract or arrangement or transaction to which the Company is a party or in which the Company is in any way interested and he may hold and be remunerated (in addition to any other remuneration provided for by or pursuant to any other Article) in respect of any office or place of profit (other than the office of Auditor of the Company or any subsidiary thereof) under the Company or any other company in which the Company is in any way interested and he (or any firm of which he is a member) may act in a professional capacity for the Company or any such other company and be remunerated therefor and in any such case as aforesaid (unless otherwise agreed) the Director may retain for his own absolute use and benefit all profits and advantages accruing to him thereunder or in consequence thereof.

(B) Appointments with other companies

A Director of the Company may (subject to Article 91, where applicable) be or become a director or other officer of, or otherwise interested in, any undertaking promoted by the Company or in which the Company may be interested, and (unless otherwise agreed) shall not be accountable to the Company or the members for any remuneration, profit or other benefit received by him as a director or officer of, or from his interest in, such other undertaking. The Directors may also cause the voting power conferred by the shares in any other undertaking held or owned by the Company to be exercised in such manner in all respects as they think fit, including the exercise thereof in favour of any resolution appointing themselves or any of them to be directors, officers or servants of such other undertaking, or voting or providing for the payment of remuneration to the directors, officers or servants of such other undertaking.

89. (A) Executive office

The Directors may from time to time appoint one or more of their body to be holder of any executive office (including, where considered appropriate, the office of Chairman, Deputy Chairman or Vice-Chairman, Managing, Joint Managing, Deputy or Assistant, Managing

Director or Chief, Deputy Chief or Assistant Chief Executive (whether such position is held solely or jointly)) on such terms and for such period as they may (subject to the provisions of the Statutes) determine and without prejudice to the terms of any contract entered into in any particular case, may at any time revoke any such appointment.

(B) When termination of appointment automatic

The appointment of any Director to any of the executive offices specifically mentioned in paragraph (A) above shall automatically determine if he ceases to be a Director but without prejudice to any claim for damages for breach of any contract of service between him and the Company.

(C) When termination of appointment not automatic

The appointment of any Director to any other executive office shall not automatically determine if he ceases from any cause to be a Director, unless the contract or resolution under which he holds office shall expressly state otherwise in which event the termination of his office if he ceases to be a Director shall be without prejudice to any claim for damages for breach of any contract of service between him and the Company.

90. Delegation of powers

The Directors may entrust to and confer upon any Director or other person any of the powers exercisable by them as Directors upon such terms and conditions (including the power to sub-delegate) and with such restrictions as they think fit, and either collaterally with or to the exclusion of their own powers, and may from time to time revoke, withdraw, alter or vary all or any of such powers.

91. Directors' interests: authorisation of conflict situations by Directors

(A) For the purposes of Section 175 of the 2006 Act, the Directors have the power to authorise any matter which would or might otherwise constitute or give rise to a breach of the duty of a Director under that Section to avoid a situation in which he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company.

(B) Authorisation of a matter under this Article 91 is effective only if:

(a) the matter in question is proposed in writing for consideration at a Directors' meeting in accordance with the Directors' normal procedures or in such other manner as the Directors may approve;

(b) the proposal is dealt with as an item of business at that Directors' meeting in accordance with the Directors' normal procedures (subject to sub-paragraphs (c) and (d) below);

(c) any requirement as to the quorum at the Directors' meeting, or the part of a Directors' meeting, at which the matter is considered is met without counting the Director in question and any other interested Director (together the "interested directors"); and

(d) the matter is agreed to without the interested directors voting, or the matter would have been agreed to if the votes of the interested directors had not been counted.

(C) Any authorisation of a matter under this Article 91 extends to any actual or potential conflict of interest which may reasonably be expected to arise out of the matter so authorised.

(D) Any authorisation of a matter under this Article 91 may be given on or subject to such conditions or limitations as the Directors determine, whether at the time such authorisation is given or subsequently. In particular, the Directors may provide:

(a) for the exclusion of some or all of the interested directors from the receipt of information, or participation in discussion (whether at Directors' meetings or otherwise), relating to the matter authorised by the Directors; or

(b) with respect to an interested director who obtains information that is confidential to a third party, that he is not obliged to disclose that information to the Company, or to use the information in relation to the Company's affairs, where to do so would amount to a breach of that confidence.

A Director must comply with any obligations imposed on him by the Directors in or pursuant to any authorisation.

(E) A Director is not, except as otherwise agreed by him, accountable to the Company for any benefit which he (or a person connected with him) derives from any matter authorised by the Directors under this Article 91, and any contract, transaction or arrangement relating to such matter is not liable to be avoided on the grounds of any such benefit.

(F) An authorisation under this Article 91 may be terminated by the Directors at any time.

(G) The provisions of paragraph (B) above apply in relation to any modification of the conditions or limitations on or subject to which an authorisation is given as they apply in relation to the giving of the authorisation.

(H) An authorisation must be recorded in writing, but failure to do so will not invalidate the authorisation.

(I) Notwithstanding any other provision of the Articles, the Directors may not delegate the powers conferred on them under paragraph (A) above.

APPOINTMENT AND RETIREMENT OF DIRECTORS

92. Vacation of office of director

The office of a Director shall be vacated in any of the following events, namely:

(A) if pursuant to any provisions of the Statutes he is removed or prohibited from being a Director;

(B) if he shall resign by writing under his hand left at the Office, or if he shall tender his resignation and the Directors shall resolve to accept the same, or if, having been appointed for a fixed term, the term expires, or if his office as a director is vacated pursuant to Article 97;

(C) if he shall have a receiving order made against him, become bankrupt, apparently insolvent, execute a trust deed for behalf of his creditors or shall compound with his creditors generally;

(D) if a registered medical practitioner who is treating him gives a written opinion to the Company stating that the Director has become mentally incapable of acting as a director and may remain so for more than three months or, by reason of his mental health, a court makes an order which wholly or partly prevents him from personally exercising any powers or rights that he would otherwise have, or otherwise the other Directors unanimously consider the Director is otherwise mentally incapable of acting as a director;

(E) if he shall be absent from meetings of the Directors for three months without leave and his alternate Director (if any) shall not during such period have attended in his stead and the Directors shall resolve that his office be vacated; or

(F) if he shall be removed from office by notice in writing served upon him signed by all his co-Directors, but so that in the case of a Director holding an executive office which automatically determines on his ceasing to be a Director such removal shall be deemed an act of the Company and shall have effect without prejudice to any claim for damages in respect of the consequent termination of his executive office.

93. Retirement of directors by rotation

At the Annual General Meeting in each year any Director bound to retire under Article 97 and any Directors who were not appointed at one of the preceding two Annual General Meetings shall retire from office and may offer themselves for re-election by the members.

94. When directors deemed to be reappointed

The Company at the meeting at which a Director retires under any provision of the Articles may (subject to Article 98) by Ordinary Resolution fill up the office being vacated by electing thereto the retiring Director or some other person eligible for appointment. In default the retiring Director shall be deemed to have been re-elected except in any of the following cases:

(A) where at such meeting it is expressly resolved not to fill up such office or a resolution for the re-election of such Director is put to the meeting and lost;

(B) where such Director has given notice in writing to the Company that he is unwilling to be re-elected;

(C) where the default is due to the moving of a resolution in contravention of the next following Article;

(D) where such Director has attained any retiring age applicable to him as Director;

(E) where, if such Director was re-elected, he would be required to vacate the office of Director pursuant to Article 92.

The retirement shall not have effect until the conclusion of the meeting except where a resolution is passed to elect some other person in the place of the retiring Director or a resolution for his re-election is put to the meeting and lost and accordingly a retiring Director who is re-elected or deemed to have been re-elected will continue in office without break.

95. Resolution

A resolution for the appointment of two or more persons as Directors by a single resolution shall not be moved at any General Meeting unless a resolution that it shall be so moved has first been agreed to by the meeting without any vote being given against it; and any resolution moved in contravention of this provision shall be void.

96. Notice of intention to appoint a director

No person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for appointment as a Director at any General Meeting unless not less than seven nor more than forty two days (inclusive of the date on which the notice is given) before the day appointed for the meeting there shall have been left at the Office, addressed to the Secretary, notice in writing signed by some member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for appointment stating the particulars which would, if he were so appointed, be required to be included in the Company's Register of Directors

together with notice in writing signed by the person to be proposed of his willingness to be elected.

97. Removal and replacement of directors

The Company may in accordance with and subject to the provisions of the Statutes by Ordinary Resolution of which special notice has been given remove any Director from office notwithstanding any provision of the Articles or of any agreement between the Company and such Director, but without prejudice to any claim he may have for damages for breach of any such agreement, and by Ordinary Resolution appoint another person in place of a Director so removed from office and any person so appointed shall be treated for the purpose of determining the time at which he or any other Director is to retire by rotation as if he had become a Director on the day on which the Director in whose place he is appointed was last elected as a Director. In default of such appointment the vacancy arising upon the removal of a Director from office may be filled by the Directors as a casual vacancy.

98. Appointment by ordinary resolution or by directors

The Company may by Ordinary Resolution appoint any person to be a Director either to fill a casual vacancy or as an additional Director. Without prejudice and in addition thereto, the Directors shall have the power at any time so to do, but so that the total number of Directors shall not at any time exceed the maximum number (if any) fixed by or in accordance with the Articles. Any person so appointed by the Directors shall hold office only until the next Annual General Meeting and shall then be eligible for re-election; if not re-elected at such General Meeting, he shall vacate office at its conclusion.

ALTERNATE DIRECTORS

99. (A) Power to appoint alternate directors

Any Director (other than an alternate Director) may at any time by writing under his hand and deposited at the Office, or received by the Secretary or delivered at a meeting of the Directors, appoint any person (including another Director) to be his alternate Director and may in like manner at any time terminate such appointment. If such alternate Director is not another Director, such appointment, unless previously approved by the Directors, shall have effect only upon and subject to being so approved.

(B) Termination

The appointment of an alternate Director shall automatically determine on the happening of any event which if he were a Director would cause him to vacate such office or if his appointor ceases to be a Director or if the approval of the Directors to his appointment is withdrawn. An alternate Director may by writing under his hand left at the Office resign such appointment.

(C) Alternate to receive notices

An alternate Director shall (except when absent from the United Kingdom) be entitled, if his appointor so requests, to receive notices of meetings of the Directors to the same extent as, but in lieu of, the Director appointing him and shall be entitled to attend and vote as a Director and be counted for the purposes of a quorum at any such meeting at which the Director appointing him is not personally present and generally at such meeting to perform all functions, powers and duties of his appointor as a Director and for the purposes of the proceedings at such meeting the provisions of the Articles shall apply as if he were a Director. If he shall himself be a Director or shall attend any such meeting as an alternate for more than one Director his voting rights shall be cumulative. If his appointor is for the time being absent from the United Kingdom or temporarily unable to act through ill-health or disability his signature to any resolution in writing of the Directors shall be as effective as the signature of his appointor. To such extent as the Directors may from time to time determine in relation to any committees formed under Article 108 the foregoing sentences shall also apply *mutatis mutandis* to any meeting of any such committee of which his appointor is a member. An

alternate Director shall not (save as aforesaid) have power to act as a Director nor shall he be deemed to be a Director for the purposes of the Articles.

(D) Alternate may be paid expenses but not remuneration

An alternate Director may be repaid expenses, and shall be entitled to be indemnified, by the Company to the same extent *mutatis mutandis* as if he were a Director but he shall not be entitled to receive from the Company any remuneration except only such proportion (if any) of the remuneration otherwise payable to his appointor as such appointor may by notice in writing to the Company from time to time direct.

PROCEEDINGS OF DIRECTORS

100. (A) Meetings of directors

Subject to the provisions of the Articles, the Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In case of an equality of votes the chairman of the meeting shall have a second or casting vote. A Director may, and the Secretary on the requisition of a Director shall, at any time summon a meeting of the Directors. Notice of a meeting of Directors shall be deemed to be properly given to a Director if it is given to him personally or by word of mouth or sent in writing or by electronic means to him at his last known address or any other address given by him to the Company for this purpose. A Director absent or intending to be absent from the United Kingdom may request that notices of meetings of Directors shall during his absence be sent in writing or by electronic means to him at an address given by him to the Company for this purpose, but such notices need not be given any earlier than notices given to Directors not so absent and if no such request is made it shall not be necessary to give notice of a meeting of Directors to any Director who is for the time being absent from the United Kingdom. A Director may waive notice of any meeting either prospectively or retrospectively.

(B) Participation in meetings remotely

Any one or more (including, without limitation, all) of the Directors, or any committee of the Directors, may participate in a meeting of the Directors or of such committee by means of a conference telephone or similar communications equipment (whether in use when these Articles are adopted or developed subsequently) allowing all persons participating in the meeting to hear and speak to each other throughout such meeting.

Participating by such means shall constitute presence in person at a meeting. Such meeting shall be deemed to have occurred at the place where most of the Directors participating are present or, if there is no such place, where the chairman of the meeting is present.

101. Authority to vote

A Director who is unable to attend any meeting of the Directors and has not appointed an alternate Director may authorise any other Director to vote for him at that meeting, and in that event the Director so authorised shall have a vote for each Director by whom he is so authorised in addition to his own vote. Any such authority must be in writing or by cable, telegram, telex or facsimile which must be produced at the meeting at which the same is to be used and be left with the Secretary for retention.

102. Quorum

The quorum necessary for the transaction of the business of the Directors may be fixed by the Directors and unless so fixed at any other number shall be three. A meeting of the Directors at which a quorum is present shall be competent to exercise all powers and discretions for the time being exercisable by the Directors.

103. Directors' interests

A Director who is in any way, whether directly or indirectly, interested in a contract or proposed contract (or any transaction or arrangement whether or not constituting a contract) with the Company shall declare the nature of his interest in accordance with the provisions of the Statutes.

104. (A) Restrictions on voting

Save as herein provided, a Director shall not vote at any meeting of the Directors in respect of any contract or arrangement or any other proposal whatsoever in which he has an interest which (together with any interest of any person connected with him within the meaning of Section 252 of the 2006 Act) is, to his knowledge, a material interest (otherwise than by virtue of his interests in shares or debentures or other securities of, or otherwise in or through, the Company). A Director shall not be counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting.

(B) Where interest does not prevent voting

Subject to the provisions of the Statutes a Director shall (in the absence of some other material interest than is indicated below) be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters, namely:

(i) the giving of any security or indemnity to him pursuant to Article 157 or in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiary undertakings;

(ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;

(iii) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiary undertakings for subscription or purchase in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate;

(iv) any proposal concerning any other company (not being a company in which he owns one per cent or more) in which he is interested, directly or indirectly and whether as an officer, or shareholder, creditor or otherwise howsoever;

(v) any proposal concerning the adoption, modification or operation of a pension fund or retirement death or disability benefits scheme or employees' share scheme which relates both to Directors and employees of the Company or of any of its subsidiary undertakings and does not provide in respect of any Director as such any privilege or advantage not accorded to the employees to which the fund or scheme relates;

(vi) any contract or arrangement for the benefit of employees of the Company or of any of its subsidiary undertakings under which he benefits or stands to benefit in a similar manner to the employees and which does not accord to any Director as such any privilege or advantage not accorded to the employees to whom the contract or arrangement relates; and;

(vii) any proposal concerning insurance which the Company proposes to purchase and/or maintain for the benefit of any Directors of the Company or for persons who include Directors of the Company, provided that for the purposes of this sub-paragraph (vii), insurance shall mean only insurance against liability incurred by a Director in respect of any act or omission by him referred to in Article 87(B), or any other insurance which the Company is empowered to purchase and/or maintain for, or for the benefit of, any groups of persons consisting of or including Directors of the Company.

For the purposes of sub-paragraph (iv) above, a company shall be deemed to be one in which a Director owns one per cent or more if and so long as (but only if and so long as) he, taken together with any person connected with him within the meaning of Section 252 of the 2006 Act, is to his knowledge (either directly or indirectly) the holder of or beneficially interested in one per cent or more of any class of the equity share capital of that company or of the voting rights available to members of that company. For the purpose of this paragraph there shall be disregarded any shares held by the Director or any such person as simple trustee under the laws of Scotland or bare or custodian trustee under the laws of England and Wales and in which he has no beneficial interest, any shares comprised in a trust in which his, or any such person's, interest is in reversion or remainder or fee if and so long as some other person is entitled to receive the income of the trust, and any shares comprised in an authorised unit trust scheme in which he, or any such person, is interested only as a unit holder. Where a company in which a Director owns one per cent or more is materially interested in a contract or arrangement or other proposal, he also shall be deemed to be materially interested in that contract, arrangement or other proposal.

(C) Consideration of matters involving two or more directors

Where proposals are under consideration concerning the appointment (including fixing or varying the terms of appointment) of two or more Directors to offices or employments with the Company or any company in which the Company is interested, such proposals may be divided and considered in relation to each Director separately and in such case each of the Directors concerned (if not debarred from voting under paragraph (B)(iv) of this Article) shall be entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment.

(D) Materiality of directors' interests

If any question shall arise at any meeting as to the materiality of a Director's interest or as to the entitlement of any Director to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting (or in the case of a question as to the materiality of an interest or entitlement to vote of the chairman, one of the Deputy Chairmen or in his absence one of the Vice-Chairmen) and his ruling in relation to any other Director shall be final and conclusive except in a case where the nature or extent of the interests of such Director has not been fairly disclosed.

(E) Alternate Directors

In relation to an alternate Director, the interest of his appointor shall, for the purposes of this Article, be treated as the interest of the alternate Director in addition to an interest which the alternate Director otherwise has. This Article applies to an alternate Director as if he were a Director.

(F) Relaxation of provisions

Subject to the Statutes, the Company may by Ordinary Resolution suspend or relax the provisions of this Article to any extent or ratify any transaction not duly authorised by reason of a contravention of this Article.

105. Proceedings in case of vacancies

The continuing Directors may act notwithstanding any vacancies in their number, but if and so long as the number of Directors is reduced below the number fixed by or in accordance with the Articles as the necessary quorum of Directors the continuing Directors or Director may act for the purpose of filling up such vacancies or of summoning General Meetings of the Company, but not for any other purpose. If there be no Directors or Director able or willing to act, then any two members may summon a General Meeting for the purpose of appointing Directors.

106. Chairman

The Directors may elect a Chairman and one or more Deputy Chairmen and one or more Vice-Chairmen and determine the period for which each is to hold office. The Chairman or, in his absence, one of any Deputy Chairmen or, in his absence, one of any Vice-Chairmen shall preside at meetings of the Directors, but if no Chairman or Deputy Chairman or Vice-Chairman shall have been appointed, or if at any meeting none of them be present within five minutes after the time appointed for holding the same, the Directors present may choose one of their number to be chairman of the meeting. If at any time there is more than one Deputy Chairman or Vice-Chairman the right (in the absence of the Chairman or of the Chairman and the Deputy Chairmen respectively) to preside at a meeting of Directors shall be determined as between the Deputy Chairmen (in the absence of the Chairman) or Vice-Chairmen (in the absence of the Chairman and the Deputy Chairmen) present (if more than one) by seniority in length of appointment or otherwise as resolved by the Directors.

107. Resolutions in writing

A resolution in writing signed or confirmed by electronic means by all the Directors entitled to vote on the resolution at a meeting of Directors (provided that their number is sufficient to constitute a quorum), or by all the members of a committee formed under the next following Article, shall be as valid and effective as a resolution passed at a meeting of the Directors or, as the case may be, of such committee duly convened and held. Any such resolution must be in writing but may consist of several documents or electronic communications each with the relevant resolution in the like form and signed, authenticated or otherwise confirmed by electronic means by each of the Directors or members of the relevant committee.

108. Committees of directors

The Directors may delegate any of their powers, authorities or discretions (including, for the avoidance of doubt, any powers, authorities or discretions relating to the remuneration of Directors, the varying of Directors' terms and conditions of employment or the conferring of any benefit on Directors) to committees consisting of such Directors, or any other person, as the Directors think fit. Insofar as any such power, authority or discretion is delegated to a committee, any reference in the Articles to the exercise by the Directors of the power, authority or discretion so delegated shall be read and construed as if it were a reference to the exercise by such committee. Any committee so formed shall in the exercise of the powers, authority or discretions so delegated conform to any regulations which may from time to time be imposed by the Directors. Subject to such regulations, any member of a committee may enjoy voting rights in the committee. Any delegation under this Article shall, in the absence of express provision to the contrary in the terms of delegation, be deemed to include authority to sub-delegate to sub-committees or any other person any of the powers, authorities or discretions delegated, and may be made subject to such conditions as the Directors may specify, and may be revoked or altered. The Directors may at any time dissolve any such committee or revoke, vary or suspend any delegation made to any such committee.

109. Proceedings of committee

The meetings and proceedings of any such committee consisting of two or more members (including the exercise of all powers, authorities and discretions vested in such committee) shall be governed by the provisions of the Articles regulating the meetings and proceedings of the Directors, so far as the same are applicable and are not superseded by any regulations made by the Directors under the last preceding Article.

110. Validity of proceedings

All acts done by any meeting of Directors, or of any such committee, or by any person acting as a Director, shall as regards all persons dealing in good faith with the Company, notwithstanding that there was some defect in the appointment or continuance in office of any

such Directors (or their alternates), or member of the committee, or person acting as aforesaid, or that they or any of them were disqualified or had vacated office, or were not entitled to vote, be as valid as if every such person had been duly appointed and was qualified and had continued to be a Director (or alternate Director) or member of the committee and had been entitled to vote.

BORROWING POWERS

111. Power to borrow and grant security

The Directors may exercise all the powers of the Company to borrow money, and to mortgage or charge its undertaking, property and uncalled capital, and to issue debentures and other securities, whether outright or as collateral security for any debt, guarantee, liability or obligation of the Company or of any third party.

GENERAL POWERS OF DIRECTORS

112. Business to be managed by the directors

The business and affairs of the Company shall be managed by the Directors, who may exercise all such powers of the Company as are not by the Statutes or by the Articles required to be exercised by the Company in General Meeting, subject nevertheless to any regulations of the Articles, to the provisions of the Statutes and to such regulations, being not inconsistent with the aforesaid regulations or provisions, as may be prescribed by Special Resolution of the Company, but no regulation so made by the Company shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made. The general powers given by this Article shall not be limited or restricted by any special authority or power given to the Directors by any other Article.

113. Local boards, etc

The Directors may make such arrangements as they think fit for the management and transaction of the Company's affairs in any specified locality whether in the United Kingdom or elsewhere and without prejudice to the generality of the foregoing may at any time and from time to time (a) establish Regional, Divisional or Local Boards, Committees or Agencies in the United Kingdom or elsewhere, (b) appoint any one or more of the Directors or any other person or persons to be members thereof for such period and at such remuneration as the Directors may deem fit, (c) revoke from time to time any such appointment, (d) fix the quorum of the said Regional, Divisional or Local Boards and Committees, (e) delegate to such Regional, Divisional or Local Boards, Committees and Agencies from time to time all or such powers, authorities and discretions vested in the Directors (other than the power to make calls) as the Directors may deem expedient, with power to sub-delegate, and (f) annul or vary any such delegation, but no person dealing in good faith and without notice of any such annulment or variation shall be affected thereby.

114. Powers of attorney

The Directors may from time to time and at any time by power of attorney or factory and commission or otherwise appoint any company, firm or person or any fluctuating body of persons, whether nominated directly or indirectly by the Directors, to be the Attorney or Attorneys or Commissioner or Commissioners of the Company for such purposes and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Directors under the Articles) and for such period and subject to such conditions as they may think fit, and any such power of attorney or factory and commission may contain such provisions for the protection and convenience of persons dealing with any such Attorney or Commissioner as the Directors may think fit, and may also authorise any such Attorney or Commissioner to sub-delegate all or any of the powers, authorities and discretions vested in him. The Directors may delegate all or any of their powers under this Article.

115. Overseas registers

Subject to and to the extent permitted by the Statutes, the Company, or the Directors on behalf of the Company, may cause to be kept in any territory outside the United Kingdom a branch register of members resident in such territory, and the Directors may make and vary such regulations as they may think fit respecting the keeping of any such register.

116. Execution by the Company

All cheques, promissory notes, drafts, bills of exchange, and other negotiable or transferable instruments, and all receipts for moneys paid to the Company, shall be signed, drawn, accepted, endorsed, or otherwise executed, as the case may be, in such manner as the Directors or any duly authorised committee shall from time to time determine.

DEPARTMENTAL, REGIONAL OR LOCAL DIRECTORS AND OTHER APPOINTEES

117. (A) Use of designation "Director"

The Directors may from time to time appoint any person to be a Departmental, Regional or Local Director or (without prejudice to the powers conferred by Article 113) to any other appointment including the word "Director" in its title (any person so appointed pursuant to this Article being in this Article called "an Appointee").

(B) Powers and duties of Appointee

The Directors may from time to time define, limit or restrict the powers and duties of an Appointee and determine his remuneration and may at any time remove any such person from such office but without prejudice to any claim for damages for breach of any contract of service between him and the Company. Any person so appointed as an Appointee shall not, by reason only of such appointment, be a Director of the Company for any of the purposes of the Articles or of the Statutes, nor shall he have, by reason only of such appointment, any of the powers or duties of a Director save in so far as specific powers or duties may be vested in him by the Directors as aforesaid. The Directors may at any time determine the use of any designation or title including the word "Director".

(C) Attendance at board meetings

An Appointee shall not be entitled, by reason only of such appointment, to receive notice of or to attend at any meeting of the Directors unless he is specifically invited by the Directors to do so, and as an Appointee he shall not be entitled to vote thereat.

(D) Appointment of other officers

The Directors may from time to time appoint managers, deputy managers, assistant managers or any other officers on such terms and for such period as the Directors may think fit. The Directors may from time to time define, limit or restrict the powers and duties of any person appointed to any such office and determine his remuneration and may at any time remove any such person from such office but without prejudice to any claim for damages for breach of any contract of service between him and the Company.

SECRETARY

118. Secretary

The Secretary shall be appointed by the Directors on such terms and for such period as they may think fit. Any Secretary so appointed may at any time be removed from office by the Directors, but without prejudice to any claim for damages for breach of any contract of service between him and the Company. If thought fit two or more persons may be appointed as Joint Secretaries. The Directors may also appoint from time to time on such terms as they may

think fit one or more Deputy Secretaries and Assistant Secretaries. Anything by the Statutes or by the Articles required or authorised to be done by or to the Secretary may, if the office is vacant or there is for any other reason no Secretary capable of acting, be done by or to any Deputy or Assistant Secretary, or if there is no Deputy or Assistant Secretary capable of acting, by or to any officer of the Company authorised generally or specially in that behalf by the Directors.

SEALS

119. (A) Custody of seal

The Directors shall provide for the safe custody of the Seal and it shall not be used without the authority of the Directors or a committee authorised by the Directors in that behalf.

(B) Formalities for affixing the seal

Every deed, contract, document, instrument or other writing to which the Seal shall be affixed shall (except as permitted by Article 17) be (A) signed by a Director or by some other person appointed by the Directors for the purpose and countersigned by the Secretary or by a second Director or by some other person appointed by the Directors for the purpose, (B) signed by one Director in the presence of a witness, or (C) signed by such other person or persons as the Directors may approve.

EXECUTION OF DOCUMENTS

120. Execution of documents

Subject to the provisions of the Statutes, all deeds, contracts, documents, instruments or other writings not executed under Seal may be signed by a Director or by the Secretary or by some other person appointed by the Directors or by a duly authorised committee for that purpose and that whether or not relating to heritable or real property. Provided that this Article and the provisions of Article 119(B) are without prejudice to any other manner of execution of documents permitted or prescribed by the Statutes.

AUTHENTICATION OF DOCUMENTS

121. Authentication of documents

Any Director or the Secretary or any person appointed by the Directors or by a duly authorised committee for the purpose shall have power to authenticate any documents affecting the constitution of the Company and any resolutions passed by the Company or the Directors or any committee, and any books, records, documents and accounts relating to the business of the Company, and to certify copies thereof or extracts therefrom as true copies or extracts; and where any books, records, documents or accounts are elsewhere than at the Office the officer, servant or agent of the Company having the custody thereof shall be deemed to be a person appointed by the Directors as aforesaid. A document purporting to be a copy of a resolution, or an extract from the minutes of a meeting, of the Company or of the Directors or any committee which is certified as aforesaid shall be conclusive evidence in favour of all persons dealing with the Company upon the faith thereof that such resolution has been duly passed or, as the case may be, that such minutes or extract is a true and accurate record of proceedings at a duly constituted meeting.

DIVIDENDS

122. Declaration of dividends

The Company may by Ordinary Resolution declare dividends but no dividend shall be payable except out of the profits of the Company available for distribution under the provisions of the Statutes, or in excess of the amount recommended by the Directors, or in contravention of the

special rights attaching to any share. Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall be declared and paid according to the amounts paid on the shares in respect of which the dividend is paid, and shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid *pro rata* according to the amounts paid on the shares during any portion or portions of the period in respect of which the dividend is paid. The amounts of any such *pro rata* apportionments shall be determined by the Directors as they think fit in all respects including as to any Applicable Exchange Rate applied by them for the purposes of converting any amount denominated in one currency into another currency for such determination. Provided that the Directors act *bona fide* they shall not incur any responsibility to the holders of any share in respect of the determination of such *pro rata* apportionment. For the purposes of this Article no amount paid on a share in advance of calls shall be treated as paid on the share.

123. (A) Interim dividends

Subject to the Statutes, the Directors may, if it appears to the Directors that they are justified by the profits of the Company, pay interim dividends and fixed dividends or dividends not exceeding a specified amount expressed to be payable on fixed, half-yearly or such other dates prescribed for the payment thereof. Any interim dividends may be in respect of any class, of such amount and payable on such dates and in respect of such periods as the Directors think fit. Such payments of interim dividends, fixed dividends or dividends not exceeding a specified amount in respect of any class of share shall be subject to the special rights attaching to any share provided that the Directors may, in any event, pay an interim dividend on the Ordinary Shares at a rate not exceeding £0.01 per Ordinary Share. If the Directors act in good faith, they shall not incur any liability to the holders of shares conferring preferred rights for any loss which they may suffer by reason of the lawful payment of an interim dividend on any shares having deferred or non-preferred rights. For the purpose of ascertaining the distributable profits or reserves of the Company available for distribution at any time and the extent to which the same may cover fixed dividends or dividends not exceeding a specified amount expressed to be payable at such time, the Directors may convert any such profits or reserves denominated in, and any fixed dividend or dividends not exceeding a specified amount expressed to be payable in, a Foreign Currency into Sterling at the Applicable Exchange Rate.

(B) Directors' responsibility

Provided that the Directors act *bona fide*, they shall not incur any responsibility to the holders of any share conferring a preference which may at any time be issued for any damage they may suffer by reason of the payment of an interim dividend on any shares ranking after such preference shares. A resolution of the Directors declaring the interim dividend shall (once announced) be irrevocable and have the same effect in all respects as if such dividend had been declared upon the recommendation of the Directors by an Ordinary Resolution of the Company.

124. Profits and losses from past date

Subject to the provisions of the Statutes, where any asset, business or property is bought by, transferred to or vested in the Company as from a past date (whether such date be before or after the incorporation of the Company) the profits and losses thereof as from such date may at the discretion of the Directors in whole or in part be carried to revenue account and treated for all purposes as profits or losses of the Company. Subject as aforesaid, if any shares or securities are purchased cum dividend or interest, such dividend or interest may at the discretion of the Directors be treated as revenue, and it shall not be obligatory to capitalise the same or any part thereof.

125. Interest not payable

No dividend or other moneys payable on or in respect of a share shall bear interest as against the Company. The provisions of this Article shall not affect the provisions of Article 44.

126. Permitted deductions

The Directors may deduct from any dividend or other moneys payable to any member on or in respect of a share all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

127. Retention of dividends

The Directors may retain any dividend or other moneys payable on or in respect of a share on which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respects of which the lien exists.

128. Waiver of dividends

The waiver in whole or in part of any dividend on any share by any document (whether or not under seal) shall be effective only if such document is signed by the shareholder (or the person entitled to the share in consequence of the death or bankruptcy of the holder or otherwise by operation of law) and delivered to the Company and if or to the extent that the same is accepted as such or acted upon by the Company.

129. Unclaimed dividends

All dividends or other moneys payable on or in respect of a share unclaimed after having been declared may be invested or otherwise made use of by the Directors for the benefit of the Company until, subject as provided by the Articles, claimed. The payment by the Directors of any unclaimed dividend or other moneys payable on or in respect of a share into a separate account shall not constitute the Company a trustee in respect thereof. The provisions of this Article shall not affect the provisions of Article 44.

130. Forfeiture of unclaimed dividends

Any dividend unclaimed after a period of twelve years from the date of declaration of such dividend shall be forfeited and shall revert to the Company.

131. Dividends *in specie*

The Company may upon the recommendation of the Directors by Ordinary Resolution direct payment of a dividend in whole or in part by the distribution of specific assets (and in particular of paid-up shares or debentures of any other company) and the Directors shall give effect to such resolution, and where any difficulty arises in regard to such distribution, the Directors may (a) settle the same as they think expedient and in particular may issue fractional certificates or may authorise any person to sell and transfer any fractions or disregard fractions altogether, (b) fix the value for distribution of such specific assets or any part thereof, (c) determine that cash payments shall be made to any members upon the footing of the value so fixed in order to adjust the rights of those entitled to participate in the dividend, and (d) vest any such specific assets in trustees as may seem expedient to the Directors.

132. Scrip dividend on Ordinary Shares

The Directors may, subject to the rights attached to any class of share, with the prior sanction of an Ordinary Resolution of the Company, offer the holders of Ordinary Shares the right to elect to receive Ordinary Shares, credited as fully paid, instead of cash in respect of all or part of such dividend or dividends as are specified by such resolution. Such offer may be made by the Directors upon such terms and conditions as they think fit, provided that the following provisions shall apply in any event:

(A) the said Ordinary Resolution may specify all or part of a particular dividend (whether or not already declared) or may specify all or any dividends (or any part of such

dividends) declared or to be declared or paid within a specified period, but such period may not end later than the beginning of the fifth Annual General Meeting following the date of the meeting at which such resolution is passed;

(B) the entitlement of each holder of Ordinary Shares to new Ordinary Shares shall be such that the relevant value of the entitlement shall be as nearly as possible equal to (but not greater than) the cash amount (disregarding any tax credit) of the dividend that such holder elects to forego provided always that, in calculating the entitlement, the Directors may at their discretion adjust the figure obtained by dividing the relevant value by the amount payable on the Ordinary Shares up or down so as to procure that the entitlement of each shareholder to new Ordinary Shares may be represented by a simple numerical ratio. For this purpose "relevant value" shall be calculated by reference to the average of the middle market quotations for the Company's Ordinary Shares on the London Stock Exchange, as derived from the Daily Official List, on the day on which the Ordinary Shares are first quoted "ex" the relevant dividend and the four subsequent dealing days, or in such other manner as may be determined by the Directors on such basis as they consider fair and reasonable. A certificate or report by the Auditors as to the amount of the average quotation in respect of any dividend shall be conclusive evidence of that amount;

(C) the basis of allotment shall be such that no member may receive a fraction of a share. The Directors may make such provisions as they think fit for any fractional entitlements, including provisions whereby, in whole or in part, fractional entitlements are disregarded or the benefit thereof accrues to the Company and/or under which fractional entitlements are accrued and/or retained and in each case accumulated on behalf of any shareholder and such accruals or retentions are applied to the allotment by way of bonus to or cash subscription on behalf of such shareholder of fully paid Ordinary Shares;

(D) the Directors, after determining the basis of allotment, shall notify the holders of Ordinary Shares of the right of election offered to them, and shall send with, or following, such notification, forms of election and specify the procedure to be followed and the place at which, and the latest date and time by which, duly completed forms of election must be lodged in order to be effective;

(E) the dividend (or that part of the dividend in respect of which a right of election has been offered) shall not be payable on Ordinary Shares in respect whereof the said election has been duly made ("the elected Ordinary Shares") and instead thereof additional Ordinary Shares shall be allotted to the holders of the elected Ordinary Shares on the basis of allotment determined as aforesaid. For such purpose the Directors shall capitalise out of such of the sums standing to the credit of any of the Company's reserves (including Share Premium Account and Capital Redemption Reserve) or any of the profits which could otherwise have been applied in paying dividends in cash as the Directors may determine, a sum equal to the aggregate nominal amount of the additional Ordinary Shares to be allotted on such basis and apply the same in paying up in full the appropriate number of new Ordinary Shares for allotment and distribution to and amongst the holders of the elected Ordinary Shares on such basis. A resolution of the Directors capitalising any part of the reserves or profits hereinbefore mentioned shall have the same effect as if such capitalisation had been declared by Ordinary Resolution of the Company in accordance with Article 137;

(F) the additional Ordinary Shares so allotted shall rank *pari passu* in all respects with the fully paid Ordinary Shares then in issue save only as regards participation in the relevant dividend;

(G) any resolution of the Company or the Directors, passed on or after the date of adoption of the Articles, declaring a dividend in respect of which (or in respect of any part of which) a right of election is offered under this Article (whether before or after the passing of the resolution) shall be deemed to include (if not expressly included) a provision that the dividend declared (or the part thereof in respect of which the right of

election is offered) shall not be payable in respect of Ordinary Shares as regards which a valid acceptance of the offer under this Article shall have been received by the Company not later than the final time for receipt of forms of election;

(H) Unless the Directors otherwise determine, or unless the Uncertificated Securities Regulations and/or the rules of the relevant system concerned otherwise require, the new Ordinary Share or shares which a member has elected to receive instead of cash in respect of the whole (or some part) of the specified dividend declared in respect of his elected Ordinary Shares shall be in uncertificated form (in respect of the member's elected Ordinary Shares which were in uncertificated form on the date of the member's election) and in certificated form (in respect of the member's elected Ordinary Shares which were in certificated form on the date of the member's election); and

(I) the Directors may also from time to time establish, continue or vary a procedure for election mandates, which, for the avoidance of doubt, may include an election by means of a relevant system and mandates given before the adoption of the Articles, under which a holder of Ordinary Shares may elect to receive Ordinary Shares credited as fully paid instead of cash in respect of all future rights offered to that holder under this Article until the election mandate is revoked or deemed to be revoked in accordance with the procedure;

(J) the Directors may undertake and do such acts and things as they may consider necessary or expedient for the purpose of giving effect to the provisions of this Article;

(K) notwithstanding the foregoing, the Directors may at any time prior to payment of the relevant dividend determine, if it appears to them desirable to do so because of a change in circumstances, that the dividend shall be payable wholly in cash after all and if they so determine then all elections made shall be disregarded. The dividend shall be payable wholly in cash if the ordinary share capital of the Company ceases to be listed on the Official List of the London Stock Exchange at any time prior to the due date of issue of the additional shares or if the listing is suspended and not reinstated by the date immediately preceding the due date of such issue;

(L) the Directors may on any occasion determine that rights of election hereunder shall be subject to such exclusions, restrictions or other arrangements as the Directors may deem necessary or expedient in relation to legal or practical problems under the laws of, or the requirements of any recognised regulating body or any stock exchange in, any territory; and

(M) this Article shall have effect without prejudice to the other provisions of the Articles and such provisions shall also have effect without prejudice to the provisions of this Article.

133. (A) Procedure for payment

Any dividend or other monies payable in cash on or in respect of a share may be paid by such method as the Directors, in their absolute discretion may decide which, for the avoidance of doubt, may include (i) by any usual common banking or funds transfer method (including, without limitation, direct debit, bank transfer and electronic funds transfer) or (ii) by cheque, warrant or other financial instrument. The Directors may determine that only one payment method shall be used and/or that different methods for payments may apply to different holders or groups of holders.

If the Directors determine that a payment is to be made by any usual or common banking or funds transfer method, payment shall be to or through such person as the holder or joint holders may in writing direct, and the Company shall have no responsibility for any sums lost or delayed in the course of any such transfer or where it has acted on any such directions.

If the Directors determine that a payment is to be made by cheque, warrant or other financial instrument, then such payment shall be sent through the post to the registered address of the member or person entitled thereto (or, if two or more persons are registered as joint holders of the share or are entitled thereto in consequence of the death or bankruptcy of the holder or otherwise by operation of law, to any one of such persons), or to such person and such address as such member or person or persons may in writing direct. Any such cheque shall be crossed and bear across its face the words "account payee" or "a/c payee" either with or without the word "only", and any such cheque or warrant or other financial instrument shall be made payable to the order of the person to whom it is sent or to such person as the holder or joint holders or person or persons entitled to the share in consequence of the death or bankruptcy of the holder or otherwise by operation of law may direct. Payment of the cheque or warrant or other financial instrument by the banker upon whom it is drawn or, in respect of uncertificated shares, the making of payment in accordance with the facilities and requirements of the relevant system, shall be a good discharge to the Company. Any such cheque or warrant or other financial instrument shall be sent at the risk of the person entitled to the money represented thereby.

If a holder (or joint holders) does not specify an account of a type prescribed by the Directors, or an address, or does not specify other details necessary to make a payment of a dividend or other sum for the method determined by the Directors, and in each case that information is necessary in order to make a payment of a dividend or other sum by the means by which the Directors have determined pursuant to Article 133(A), or payment cannot be made using the details provided by the holder (or joint holders), or the payment is rejected or refunded, the dividend or other sum shall be treated as an uncashed dividend for the purposes of the Articles.

(B) Uncertificated shares

In respect of uncertificated shares every such payment of dividend or other monies made by any method referred to in this Article 133 may be made in any such manner as may be consistent with the facilities and requirements of the relevant system. Without prejudice to the generality of the foregoing, in respect of uncertificated shares, such payment may include the sending by the Company or by any person on its behalf of an instruction to the Operator of the relevant system to credit the cash memorandum account of the holder or joint holders, or of such person as the holder or joint holders may in writing direct.

(C) Uncashed Dividends

The Company may cease to send any cheque, warrant or other financial instrument through the post or employ any other means of payment, including payment by means of a relevant system, for any dividend payable on any shares in the Company which is normally paid in that manner on those shares if in respect of at least two consecutive dividends payable on those shares the cheques, warrants or other financial instruments have been returned undelivered or remain uncashed or that means of payment has failed. In addition, the Company may cease to send any cheque, warrant or other financial instrument through the post or may cease to employ any other means of payment if, in respect of one dividend payable on those shares, the cheque, warrant or other financial instrument has been returned undelivered or remains uncashed or that means of payment has failed and reasonable enquiries have failed to establish any new address or account of the registered holder. Subject to the provisions of the Articles, the Company may recommence sending cheques, warrants or other financial instruments or employing such other means in respect of dividends payable on those shares if the holder or person entitled to transmission requests such recommencement in writing. All monies represented by cheques, warrants or other financial instruments or means of payment not sent or employed under this paragraph (C) shall be deemed to be unclaimed dividends or monies and the provisions of Articles 44 and 129 shall apply thereto.

(D) Currency of payment

Subject to the provisions of the Articles and to the rights attaching to or the terms of issue of any shares, any dividends or other monies on or in respect of a share may be paid in such

currency on the basis of the Applicable Exchange Rate as the Directors may think fit or otherwise determine.

134. Receipts where joint holders

If two or more persons are registered as joint holders of any share, or are entitled jointly to a share in consequence of the death or bankruptcy of the holder, any one of them may give effectual receipts for any dividend or other monies payable or property distributable on or in respect of the share.

RECORD DATE

135. Record date

Notwithstanding any other provision of the Articles but without prejudice to the rights attached to any shares and subject to the Statutes, the Company or the Directors may by resolution specify any date (the "record date") as the date at the close of business (or such other time as the Directors may determine) on which persons registered as the holders of shares or other securities shall be entitled to receipt of any dividend, distribution, interest, allotment, issue, notice, information, document or circular and such record date may be on or at any time before the date on which the same is paid or made or (in the case of any dividend, distribution, interest, allotment or issue) at any time after the same is recommended, resolved, declared or announced but without prejudice to the rights *inter se* in respect of the same of transferors and transferees of any such shares or other securities.

RESERVES

136. (A) Reserves

The Directors may from time to time subject to the rights attaching to any share set aside out of the profits of the Company and carry to reserve such sums in such currencies as they think proper which, at the discretion of the Directors, shall be applicable for any purpose to which the profits of the Company may properly be applied and pending such application may either be employed in the business of the Company or be invested. The Directors may divide the reserve into such special funds denominated in such currencies as they think fit, and may consolidate into one fund denominated in such currencies as they think fit any special funds or any parts of any special funds into which the reserve may have been divided. The Directors may also without placing the same to reserve carry forward any profits. In carrying sums to reserve and in applying the same the Directors shall comply with the provisions of the Statutes and the Articles.

(B) Limitation on carrying sums to reserve

Notwithstanding the provisions of paragraph (A) of this Article:

(i) unless the Directors shall determine in relation to any New Preference Shares prior to the allotment thereof that this paragraph (B)(i) shall not apply thereto the Directors shall not set aside out of profits and carry to any reserve fund referred to in paragraph (A), or carry forward in the manner described in paragraph (A), any sum then required for the payment of dividend payable on any New Preference Shares which may be properly applied for that purpose; and

(ii) if at any time there shall be insufficient profits standing to the credit of the profit and loss account (or any other of the Company's accounts or reserves) and available for distribution for the payment of any such dividend referred to in paragraph (B)(i) above, the Directors shall (subject to the Statutes) withdraw from any such reserve fund referred to in paragraph (A) such sum (calculated at the Applicable Exchange Rate) as may be required for payment of any such dividend (and so that the Directors shall not require the consent of the Company in General Meeting to such withdrawal). Subject to the Statutes, any sum so withdrawn (and any profits previously carried

forward pursuant to paragraph (A) subsequently required for the payment of any such dividend) may be applied in or towards payment of such dividend.

(C) Different currencies

Any consolidation of or any credit to, debit from or other transfer between reserves denominated in different currencies shall be effected at the Applicable Exchange Rate.

CAPITALISATION OF PROFITS AND RESERVES

137. Power to capitalise profits

(A) Subject to the Statutes and to the rights attaching to any share, the Company may upon the recommendation of the Directors by Ordinary Resolution and subject as hereinafter provided, resolve to capitalise any part of the undivided profits of the Company (whether or not the same are available for distribution) or any part of any sum standing to the credit of any of the Company's reserves (including Share Premium Account and Capital Redemption Reserve), provided that such sum be not required for paying the dividends on any shares carrying a fixed cumulative preferential dividend, and authorise the Directors to appropriate the profits or sum resolved to be capitalised either in accordance with the rights attaching to any share or to the Ordinary Shareholders in the proportions in which such profits or sum would have been divisible amongst them had the same been applied or been applicable in paying a dividend on the Ordinary Shares and to apply such profits or sum on their behalf either in or towards paying up the amounts (if any) for the time being unpaid on any shares held by them respectively, or in paying up in full new shares or debentures or other securities or obligations of the Company of a nominal amount equal to such profits or sum, such shares or debentures or other securities or obligations to be allotted and distributed credited as fully paid up to and amongst them in the proportion aforesaid, or partly in one way and partly in the other:

Provided that any Share Premium Account and Capital Redemption Reserve and any profits which are not available for distribution may only be applied hereunder in the paying up of new shares to be allotted as fully paid.

(B) In addition and without limiting the generality of paragraph (A) of this Article, the Directors may at any time without any resolution of the shareholders capitalise any profit or reserve which may be capitalised pursuant to paragraph (A) of this Article and which is required to be capitalised to enable the Company to allot and issue fully paid shares to the holders of convertible securities pursuant to the rights of conversion conferred upon such holders and in any such case the Directors shall apply any sum so capitalised in paying up and issuing to such holders such number of shares of such nominal amounts and conferring such rights and being subject to such restrictions as shall be required to enable the Company to comply with its obligations.

138. (A) Procedure for capitalisation

Whenever such a resolution as aforesaid shall have been passed the Directors shall make all appropriations and applications of the profits or sum resolved to be capitalised thereby and all allotments and issues of fully paid shares or debentures or other securities (if any) and generally shall do all acts and things required to give effect thereto, with full power to the Directors to make such provisions as they think fit for the case of shares or debentures or other securities becoming distributable in fractions (including provisions whereby any fractional entitlements which would arise on the basis aforesaid are disregarded or the benefit thereof accrues to the Company rather than to the members concerned) and also to authorise any person to enter on behalf of all the members interested into an agreement with the Company providing for any such capitalisation and for matters incidental thereto and any agreement made under such authority shall be effective and binding on all concerned.

(B) Power to capitalise in relation to subscription price in an employees' share scheme

Notwithstanding any other provisions contained in the Articles, the Directors may capitalise all or part of the Company's reserves that can be used for this purpose in order to pay up the nominal value of an Ordinary Share to be issued under any employees' share scheme, including if an adjustment is made to the subscription price payable by an option holder under any employees' share scheme which results in the adjusted price per share payable on the exercise of an option in respect of an Ordinary Share being less than the nominal value of such Ordinary Share (the "adjusted price"), in respect of and following the exercise of the relevant option (the "new share"). The amount to be so capitalised shall be the nominal value, or in respect of an adjusted price equal to the difference between the adjusted price and the nominal value of the new share. The Directors shall apply such amount in paying up in full the balance payable on the new share. The Directors may take such steps as they consider necessary to ensure that the Company has sufficient reserves available for such application. No further authority of the Company in General Meeting is required.

MINUTES AND BOOKS

139. Keeping of minutes and books

The Directors shall cause Minutes to be made in books kept for the purpose of recording:

(A) the names of the Directors or their alternates and any other persons present at each meeting of Directors and of any committee formed under Article 108.

(B) all resolutions and proceedings at all meetings of the Company and of any class of members of the Company and of the Directors and of committees formed under Article 108.

Any such Minute shall be conclusive evidence of any such proceedings if it purports to be signed by the chairman of the meeting at which the proceedings were had, or by the chairman of the next succeeding meeting.

140. Safeguarding of minutes and books

Any register, index, minute book, book of account or other book required by the Articles or the Statutes to be kept by or on behalf of the Company may be kept in any manner as the Directors may determine, provided that the Directors shall take adequate precautions for guarding against falsification and for facilitating its discovery.

ACCOUNTS

141. Right to inspect accounts

Accounting records sufficient to show and explain the Company's transactions and otherwise complying with the Statutes shall be kept at the Office, or, subject to the Statutes, at such other place or places as the Directors think fit, and shall always be open to the inspection of the Directors. No member (other than a Director) shall have any right of inspecting any account or book or document of the Company except as conferred by statute or ordered by a court of competent jurisdiction or authorised by the Directors.

142. Preparation and laying of accounts

The Directors shall from time to time in accordance with the provisions of the Statutes cause to be prepared and to be laid before a General Meeting of the Company such profit and loss accounts, balance sheets, group accounts (if any) and reports as may be necessary.

143. Accounts to be sent to members

A copy of every balance sheet and profit and loss account, which is to be laid before a General Meeting of the Company (including every document required by law to be attached or annexed thereto) and of the Directors' and Auditors' reports or (where permitted by the Statutes and/or any applicable regulations and if the Directors so resolve from time to time) a copy of a summary financial statement instead of such balance sheet, profit and loss account and reports shall, not less than twenty one days before the date of the meeting, be sent to every member of, and every holder of debentures of, the Company and to every other person who is entitled to receive, or to whom the Company is obliged to send, notices of meetings from the Company under the provisions of the Statutes or of the Articles; Provided that this Article shall not require a copy of these documents to be sent to more than one of joint holders or to any person who is not entitled to receive notices of meetings and of whose address the Company is not aware, but any member or holder of debentures to whom a copy of these documents has not been sent shall be entitled to receive a copy free of charge on application at the Office and the Company shall comply with all other obligations under the Statutes.

Reference in this Article to copies of the above-mentioned documents and/or statements being sent to any person include (without prejudice to any other provision of the Articles) references to copies of such documents and/or statements being sent, or treated as sent, to such person in electronic form or by means of a website in accordance with the company communication provisions, and the provisions of section 430 of the 2006 Act shall apply in respect of the making available of annual accounts and reports on a website.

AUDITORS

144. Validity of acts of auditors

Subject to the provisions of the Statutes, all acts done by any person acting as an Auditor shall, as regards all persons dealing in good faith with the Company, be valid, notwithstanding that there was some defect in his appointment or that he was at the time of his appointment not qualified for appointment or subsequently became disqualified.

145. Rights of auditors

The Auditor shall be entitled to attend any General Meeting and to receive all notices of and other communications relating to any General Meeting which any member is entitled to receive, and to be heard at any General Meeting on any part of the business of the meeting which concerns him as Auditor.

COMMUNICATIONS

146. Communications to the Company

(A) Subject to the Statutes and except where otherwise expressly stated, any document or information to be sent or supplied to the Company (whether or not such document or information is required or authorised under the Statutes) shall be in hard copy form or, subject to paragraph (B) below, be sent or supplied in electronic form or by means of a website.

(B) Subject to the Statutes, a document or information may be given to the Company in electronic form only if it is given in such form and manner and to such address as may have been specified by the Directors from time to time for the receipt of documents in electronic form. The Directors may prescribe such procedures as they think fit for verifying the authenticity or integrity of any such document or information given to it in electronic form.

147. Communications by the Company

(A) A document or information may be sent or supplied in hard copy form by the Company to any member either personally or by sending or supplying it by post addressed to the member at his registered address or by leaving it at that address.

(B) Subject to the Statutes (and other rules applicable to the Company), a document or information may be sent or supplied by the Company to any member in electronic form to such address as may from time to time be authorised by the member concerned, or by making it available on a website and notifying the member concerned that it has been made available on the website, in accordance with the Statutes (and other rules applicable to the Company). A member shall be deemed to have agreed that the Company may send or supply a document or information by means of a website if the conditions set out in the Statutes have been satisfied.

(C) In the case of joint holders of a share, any notice, document or information sent or supplied by the Company in any manner permitted by the Articles to the joint holder who is named first in the register in respect of the joint holding shall be deemed to be given to all other holders of the share. Any agreement by that joint holder that notices, documents and other information may be sent or supplied in electronic form or by being made available on a website shall be binding on all the joint holders.

(D) A member whose registered address is not within the United Kingdom and who notifies the Company of an address within the United Kingdom at which notices, documents or information may be supplied to him shall be entitled to have such things supplied to him at that address, but otherwise no such member shall be entitled to receive any notice, document or information from the Company. Such address may, at the Director's discretion, be an electronic address to which notices, documents or information can be sent from the United Kingdom, but the Directors may at any time without prior notice (and whether or not the Company has previously sent or supplied any documents or information in electronic form to that electronic address) refuse to send or supply any documents or information to that electronic address if they believe that the refusal is necessary or expedient in relation to any legal or practical problems under the laws of, or the requirements of any regulatory body or stock exchange or other authority in, any territory, or that for any other reason it should not send or supply any documents or information to that electronic address.

(E) Subject to the Statutes, the Directors may from time to time issue, endorse or adopt terms and conditions relating to the use of electronic means under the Articles.

148. Communication during suspension or curtailment of postal services

(A) If at any time by reason of the suspension or curtailment of postal services within the United Kingdom (or some part of the United Kingdom) the Company is unable effectively to give notice of a General Meeting to some or all of its members or Directors then, subject to complying with paragraph (B) below, the Company need only give notice of the meeting to those members or Directors to whom the Company is entitled, in accordance with the Statutes, to give notice by electronic means.

(B) In the circumstances described in paragraph (A) above, the Company must:

(1) advertise the General Meeting by a notice which appears on its website and in at least two newspapers with a national circulation in the United Kingdom complying with the notice period requirements set out in Article 55; and

(2) send confirmatory copies of the notice (or, as the case may be, the notification of the website notice) by post to those members and Directors to whom notice (or notification) cannot be given by electronic means if at least six clear days before the meeting the posting of notices (and notifications) to addresses throughout the United Kingdom again becomes practicable.

149. When communication is deemed received

(A) Any document or information, if sent by first class post, shall be deemed to have been received on the day following that on which the envelope containing it is put into the post, or, if sent by second class post, shall be deemed to have been received on the second day following that on which the envelope containing it is put into the post, and in proving that a document or information has been received it shall be sufficient to prove that the letter, envelope or wrapper containing the document or information was properly addressed, prepaid and put into the post.

(B) Any document or information not sent by post but left at a registered address or address at which a document or information may be received shall be deemed to have been received on the day it was so left.

(C) Any document or information, if sent or supplied by electronic means, shall be deemed to have been received on the day on which the document or information was sent or supplied by or on behalf of the Company, and in proving such receipt it shall be sufficient to show that such document or information was properly addressed.

(D) If the Company receives a delivery failure notification following a communication by electronic means in accordance with paragraph (C) above, the Company shall send or supply the document or information in hard copy or electronic form (but not by electronic means) to the member either personally or by post addressed to the member at his registered address or by leaving it at that address. This shall not affect when the document or information was deemed to be received in accordance with paragraph (C) above.

(E) Where a document or information is sent or supplied by means of a website, it shall be deemed to have been received:

(1) when the material was first made available on the website; or

(2) if later, when the recipient was deemed to have received notice of the fact that the material was available on the website.

(F) Where in accordance with Article 148(B)(1) notice is given by way of website notice and newspaper advertisement, such notice shall be deemed to have been given to each member or person entitled to so receive it at the later of:

(1) the time the notice is available on the website; and

(2) 12.00 p.m. on the day when the advertisement appears (or, if it appears on different days, at 12.00 p.m. on the first of the days when it appears).

(G) A member present, either in person or by proxy, at any meeting of the Company or class of members of the Company shall be deemed to have received notice of the meeting and, where requisite, of the purposes for which the meeting was convened.

(H) The accidental failure to send, or the non-receipt by any person entitled to, any document relating to any meeting or other proceeding shall not invalidate the relevant meeting or proceeding. This paragraph applies to confirmatory copies of notices (and confirmatory notifications of website notices) sent pursuant to Article 148(B)(2) in the same way as it applies to notices of meetings.

(I) Every person who becomes entitled to a share shall be bound by every notice (other than a notice in accordance with Section 793 of the 2006 Act) in respect of that share which before his name is entered in the register was given to the person from whom he derives his title to the share.

(J) The provisions of this Article shall have effect in place of the company communications provisions relating to deemed delivery of documents or information by the Company.

150. Record date for communications

(A) For the purposes of giving notices of meetings, or of sending or supplying other documents or other information, whether under Section 310(1) of the 2006 Act, any other Statute, a provision in the Articles or any other instrument, or any other rules and regulations applicable to the Company, the Company may determine that persons entitled to receive such notices, documents or other information are those persons entered on the register at the close of business on a day determined by it.

(B) The day determined by the Company under paragraph (A) above may not be more than 15 days before the day that the notice of the meeting, document or other information is given.

151. Incapacitated members

(A) A person who claims to be entitled to a share in consequence of the death or bankruptcy of a member or otherwise by operation of law shall supply to the Company:

(1) such evidence as the Directors may reasonably require to show his title to the share; and

(2) an address at which notices may be sent or supplied to such person,

whereupon he shall be entitled to have sent or supplied to him at such address any document to which the said member would have been entitled. Any document so sent or supplied shall for all purposes be deemed to be duly sent or supplied to all persons interested (whether jointly with or as claiming through or under him) in the share.

(B) Save as provided by paragraph (A) above, any document or information sent or supplied to the address of any member pursuant to the Articles shall, notwithstanding that such member be then dead or bankrupt or in liquidation, and whether or not the Company has notice of his death or bankruptcy or liquidation, be deemed to have been duly sent or supplied in respect of any share registered in the name of such member as sole or first-named joint holder.

(C) The provisions of this Article shall have effect in place of the company communications provisions regarding the death or bankruptcy of a holder of shares in the Company.

152. Notice to warrant holders

The holders of share warrants shall not, unless otherwise expressed therein, be entitled in respect thereof to receive notices from the Company.

153. Untraced members

If on three consecutive occasions notices, documents or information have been sent to any member at his registered address or his address (including an electronic address) for the service of notices but have been returned undelivered, or if, after any one such occasion, the Directors or any committee authorised by the Directors in that behalf are of the opinion, after the making of all reasonable enquiries, that any further documents or information for such member would, if sent as aforesaid, likewise be returned undelivered, such member shall not thereafter be entitled to receive notices from the Company until he shall have communicated with the Company and supplied in writing to the Transfer Office a new address within the

United Kingdom to be either this registered address or his address (including an electronic address) for the service of notices.

154. Statutory provisions as to notices

Nothing in any of Articles 146 to 153 inclusive shall affect any provision of the Articles or the Statutes that requires or permits any particular notice or other document to be sent or supplied in any particular manner.

WINDING UP

155. Liquidator may distribute *in specie*

If the Company shall be wound up (whether the liquidation is voluntary, under supervision, or by the Court) the Liquidator may, with the authority of a Special Resolution, divide among the members in specie or kind the whole or any part of the assets of the Company and whether or not the assets shall consist of property of one kind or shall consist of properties of different kinds, and may for such purpose set such value as he deems fair upon any one or more class or classes of property and may determine how such division shall be carried out as between the members or different classes of members. The Liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the Liquidator with the like authority shall think fit, and the liquidation of the Company may be closed and the Company dissolved, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

PROVISION FOR EMPLOYEES

156. Provision for employees

The Directors may by resolution make provision for the benefit of persons employed or formerly employed by the Company or any of its subsidiaries (other than a director, former director or shadow director) in connection with the cessation or the transfer to any person of the whole or part of the undertaking of the Company or that subsidiary.

INDEMNITY

157. Indemnity

(A) Subject to the provisions of the 2006 Act, but without prejudice to any indemnity to which the person concerned may otherwise be entitled, every Director or other officer of the Company (including, but only if the Directors so determine, any person (whether an officer or not) engaged by the Company as auditor) shall be entitled to be indemnified out of the assets of the Company against (a) any liability incurred by him for negligence, default, breach of duty or breach of trust in relation to the affairs of the Company, (b) any liability incurred by him in connection with the Company's activities as a trustee of an occupational pension scheme (as defined in section 235(6) of the 2006 Act), or (c) any other liability incurred by him in relation to the Company or its affairs, provided that this Article 157(A) shall be deemed not to provide for, or entitle any such person to, indemnification to the extent that it would cause this Article 157(A), or any element of it, to be treated as void under the 2006 Act or otherwise under the Statutes.

(B) Without prejudice to paragraph (A) above or to any indemnity to which a Director may otherwise be entitled, to the extent permitted by the Statutes and otherwise upon such terms and subject to such conditions as the Directors may in their absolute discretion think fit, the Directors shall have power to make arrangements to provide a Director with funds to meet expenditure incurred or to be incurred by him:

(i) in defending any criminal or civil proceedings or in connection with any alleged negligence, default, breach of duty or breach of trust by him in relation to the Company or any associated company;

(ii) in defending himself in an investigation by a regulatory authority, or against action proposed to be taken by a regulatory authority, in connection with any such alleged negligence, default, breach of duty or breach of trust as foresaid; or

(iii) in connection with any application referred to in section 205(5) of the 2006 Act,

or to enable a Director to avoid incurring such expenditure.

(C) In paragraph (A) above, "liability" includes costs, charges, losses and expenses. For the purposes of paragraph (B) above, "associated company" shall be construed in accordance with Section 256 of the 2006 Act.

LIMITED LIABILITY

158. The liability of the members of the Company is limited to the amount, if any, unpaid on the shares held by them.

OBJECTS

159. Nothing in the Articles shall constitute a restriction on the objects of the Company to do (or omit to do) any act, and, in accordance with Section 31(1) of the 2006 Act, the Company's objects are unrestricted.

Exhibit 2.4

DESCRIPTION OF SECURITIES REGISTERED UNDER SECTION 12 OF THE EXCHANGE ACT

As of December 31, 2022, Natwest Group plc (the "Company," "NatWest Group," "we," "us" and "our"), formerly Royal Bank of Scotland Group plc, had the following series of securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol	Name of each exchange on which registered
American Depositary Shares, each representing 2 ordinary shares, nominal value £1.0769** per share	NWG	The New York Stock Exchange
Ordinary shares, nominal value £1.0769** per share		The New York Stock Exchange*
Dollar Perpetual Regulatory Tier 1 Securities	NWGP1	The New York Stock Exchange
6.000% Subordinated Tier 2 Notes due 2023	NWG 23A	The New York Stock Exchange
6.100% Subordinated Tier 2 Notes due 2023	NWG 23	The New York Stock Exchange
Fixed-to-Fixed Reset Rates Subordinated Tier 2 Notes due 2029	NWG 29A	The New York Stock Exchange
Fixed-to-Fixed Reset Rates Subordinated Tier 2 Notes due 2035	NWG 35	The New York Stock Exchange
3.875% Senior Notes due 2023	NWG 23B	The New York Stock Exchange
3.498% Fixed Rate / Floating Rate Senior Notes due 2023	NWG 23D	The New York Stock Exchange
2.359% Senior Callable Fixed-to-Fixed Reset Rate Green Notes due 2024	NWG 24C	The New York Stock Exchange
4.519% Fixed Rate / Floating Rate Senior Notes due 2024	NWG 24A	The New York Stock Exchange
4.269% Fixed Rate / Floating Rate Senior Notes due 2025	NWG 25	The New York Stock Exchange
3.073% Senior Callable Fixed-to-Fixed Reset Rate Notes due 2028	NWG 28	The New York Stock Exchange
5.076% Fixed Rate / Floating Rate Senior Notes due 2030	NWG 30	The New York Stock Exchange
4.445% Fixed Rate / Floating Rate Senior Notes due 2030	NWG 30A	The New York Stock Exchange
Senior Floating Rate Notes due 2023	NWG 23C	The New York Stock Exchange
Senior Floating Rate Notes due 2024	NWG 24B	The New York Stock Exchange
5.125% Subordinated Tier 2 Notes due 2024	NWG 24	The New York Stock Exchange
4.892% Fixed Rate / Floating Rate Senior Notes due 2029	NWG 29	The New York Stock Exchange
1.642% Senior Callable Fixed-to-	NWG27	The New York Stock Exchange

Fixed Reset Rate Notes due 2027		
5.516% Senior Callable Fixed-to-Fixed Reset Rate Notes due 2028	NWG28A	The New York Stock Exchange
7.472% Senior Callable Fixed-to-Fixed Reset Rate Notes due 2026	NWG26A	The New York Stock Exchange

* Not for trading, but only in connection with the registration of American Depositary Shares representing such Ordinary Shares pursuant to the requirements of the Securities and Exchange Commission.

** Nominal value of Ordinary shares without rounding is £1.076923076923077.

Capitalized terms used but not defined herein have the meanings given to them in NatWest Group's annual report on Form 20-F for the fiscal year ended December 31, 2022.

ORDINARY SHARES

The following description of our ordinary shares is a summary and does not purport to be complete. It is subject to and qualified in its entirety by NatWest Group's Articles of Association and by the Companies Act 1985 and the Companies Act 2006 and any other applicable English law concerning companies, as amended from time to time.

A copy of NatWest Group's Articles of Association is filed as Exhibit 1.1 to our annual report on Form 20-F for the fiscal year ended December 31, 2022, incorporated by reference herein.

Share Capital

As at December 31, 2022, our allotted, called up and fully paid share capital was as follows.

(Title of each class)	(Number of outstanding shares)
Ordinary shares of £1.0769* each	9,786,023,923
11% cumulative preference shares	240,686
5½% cumulative preference shares	242,454

* Nominal value of Ordinary shares without rounding is £1.076923076923077.

Voting Rights

Subject to any special rights or restrictions provided by the articles of association attaching to any shares or class of shares, on a show of hands every member who is present in person or by proxy shall have one vote (except that a proxy who is appointed by more than one member has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution), and on a poll every member who is present in person or by proxy shall have one vote for each 25 pence in nominal amount of shares held by him. Voting rights may not be exercised by a member who has been served with a restriction notice after failure to provide us with information concerning interests in shares to be provided under U.K. law.

Holders of non-cumulative preference shares are not entitled to attend or vote at any general meeting unless the business of the meeting includes the consideration of a resolution for the winding-up of NatWest Group or any resolution directly varying or abrogating the rights attached to any such shares and then in such case only to speak to and vote upon any such resolution. However, holders have the right to vote in respect of any matter when the

dividend payable on their shares has not been declared in full for such number of dividend periods as the directors shall determine prior to the allotment thereof. Whenever a holder is entitled to vote at a general meeting, on a show of hands every shareholder who is present in person has one vote and, on a poll, every such holder who is present in person or by proxy shall have such number of votes as may be determined by the directors prior to allotment.

Shareholders' Meetings

The Board must call an annual general meeting in each period of six months beginning with the day following our accounting reference date. Other general meetings may be called by the directors whenever they think fit. The directors must also convene a meeting upon the request of shareholders holding not less than 5% of our paid-up capital carrying voting rights at general meetings of shareholders. A request for a general meeting of shareholders must state the general nature of the business to be dealt with at the meeting, and must be signed by the requesting shareholders and deposited at our registered office or an address specified by us for the purpose. If our directors fail to give notice of such meeting to shareholders within 21 days from receipt of notice (the meeting in question to be held on a date not more than 28 days after the date of the notice convening the meeting), the shareholders that requested the general meeting, or any of them representing more than one-half of the total voting rights of all shareholders that requested the meeting, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months. Any such meeting must be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by our directors.

We must give at least 21 days' notice of a general meeting but, in the case of any general meeting other than an annual general meeting, the Companies Act 2006 (the "2006 Act") allows us to use a shorter notice period of 14 days provided that certain conditions are met, including the passing of an appropriate resolution at an annual general meeting. Notice shall be given to the auditors and to every member of NatWest Group, other than those who are not entitled to receive such notice under the provisions of the articles of association.

We may not hold an annual or general meeting at short notice other than in relation to a general meeting that is adjourned.

The notice calling a general meeting must specify the place, day and time of the meeting.

Attendance at Shareholders' Meetings; Proxies and Votes by Mail

In general, all shareholders (subject to restrictions for holders of non-cumulative preference shares as set out above) who have properly registered their shares may participate in general meetings. Shareholders may attend, speak and vote in person or by proxy.

In order to attend or vote at any general meeting, a person must be entered on the register of members by the time, being not more than 48 hours before the meeting, specified in the notice of the general meeting (as described below under "– Quorum").

A shareholder may appoint a proxy in writing or by electronic communication. The appointment of a proxy must be delivered to or received by us at the address specified for that purpose not later than 48 hours before the time appointed for the holding of the meeting. A proxy need not be a member of NatWest Group.

Quorum

The articles of association state that no business other than the appointment of a chairman of the meeting shall be transacted at any general meeting unless a quorum is present. A quorum for the purposes of a general meeting is five shareholders present in person and entitled to vote at the meeting.

If a quorum is not present at a general meeting within 15 minutes of the time appointed for the meeting (or such longer time not exceeding one hour as the chairman of the meeting may determine), the meeting shall be adjourned to either the day and time specified in the notice convening the meeting for such purpose or (if not specified) such time as the chairman of the meeting may determine. In the event of the latter, not less than seven days' notice of the

adjourned meeting (or such longer notice as may be required by statute) shall be given. If a quorum is not present at the adjourned meeting within 15 minutes of the time appointed, the members present in person or by proxy and entitled to vote at the meeting shall constitute a quorum.

Votes Required for Shareholder Action

An ordinary resolution must receive more than 50% of the votes cast to be passed. A special resolution must receive at least 75% of the votes cast in order to be passed.

Financial Statements and Other Communications with Shareholders

Not less than 21 days before the date of an annual general meeting, we must send a copy of every balance sheet and profit and loss account which is to be laid before a general meeting, and a copy of the Director's and Auditors' reports, to every member of NatWest Group and every person who is entitled to receive notice of the meeting. Alternatively, such persons can elect to receive only a copy of NatWest Group's strategic report or can elect to view the aforementioned documents on our website.

Dividends

Subject to the provisions of the 2006 Act and Clause 123 of the Articles, we may, by ordinary resolution, declare dividends on ordinary shares save that no dividend shall be payable except out of profits available for distribution, or in excess of the amount recommended by the Board or in contravention of the special rights attaching to any share. Any dividend which has remained unclaimed for 12 years from the date of declaration shall be forfeited and shall revert to us.

We may cease sending dividend warrants and cheques by post or otherwise to a member if such instruments have been returned undelivered to, or left uncashed by, that member on at least two consecutive occasions, or, following one such occasion, reasonable enquiries have failed to establish any new address or account of the registered holder. We may resume sending warrants and cheques if the holder requests such recommencement in writing.

default of such determination, as the Board shall determine. Subject to the provisions of the 2006 Act, we may issue shares which are, or at our option or the holder are liable, to be redeemed. Subject to the provisions of the 2006 Act and the Articles, unissued shares are at the disposal of the Board.

We may by ordinary resolution: increase our share capital; consolidate and divide all or any of our share capital into shares of larger amount than our existing shares; subject to the provisions of the 2006 Act, subdivide our shares, or any of them, into shares of smaller amount than is fixed by the Memorandum; or cancel any shares which have not been taken or agreed to be taken by any person and diminish the amount of our share capital by the amount of the shares so cancelled.

Subject to the provisions of the 2006 Act, if at any time our capital is divided into different classes of shares, the rights attached to any class of shares may (unless further conditions are provided by the terms of issue of the shares of that class) be varied or abrogated, whether or not we are being wound up, either with the consent in writing of the holders of three-quarters in-nominal value of the issued shares of the class or with the sanction of a special resolution passed at a separate general meeting of holders of the shares of the class (but not otherwise). To any such separate general meeting the provision of the Articles relating to general meetings will apply, save that:

(i) if at any adjourned meeting of such holders a quorum as defined above is not present, two people who hold shares of the class, or their proxies, are a quorum; and

(ii) any such holder present in person or by proxy may demand a poll. The rights attaching to any class of shares having preferential rights are not, unless otherwise expressly provided by the terms of issue thereof, deemed to be varied by the creation or issue of further shares ranking, as regards participation in our profits or assets, *pari passu* therewith, but in no respect in priority thereto.

Pre-emption Rights

Under U.K. law, if we issue specific kinds of additional securities, current shareholders will have pre-emption rights to those securities on a pro rata basis.

The shareholders may, by way of a special resolution, grant authority to the directors to allot shares as if the pre-emption rights did not apply. This authority may be either specific or general and may not exceed a period of five years. If the directors wish to seek authority to disapply the pre-emption rights in relation to a specific allotment, the directors must produce a statement that is circulated to shareholders detailing their reasons for seeking the disapplication of such pre-emption rights.

Form, Holding and Transfer of Shares

Shares may be held in either certificated or uncertificated form.

Certificated Shares

Shares held in certificated form are evidenced by a certificate and a register of shareholders is maintained by our registrar. Any member may transfer all or any of his certificated shares by an instrument of transfer in any usual form or a form approved by the directors.

Title to certificated shares is evidenced by entry in the register of our members.

The directors may decline to register any transfer of a certificated share unless:

(i) the instrument of transfer is lodged at the specified place and accompanied by the certificate for the shares to which it relates;

(ii) the instrument of transfer is in respect of only one class of share; and

(iii) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four.

Uncertificated Shares

NatWest Group shares held in uncertificated form are held through CREST (computerised settlement system to facilitate the transfer of title to shares in uncertificated form operated by Euroclear UK).

Subject to any applicable restrictions in the articles of association, any member may transfer all or any of his uncertificated shares by means of a relevant system in the manner provided for in the Uncertificated Securities Regulations 2001 and the rules of the relevant system.

Title to uncertificated shares is evidenced by entry in the operator register maintained by Euroclear UK (which forms part of the register of our members).

The directors may decline to register the transfer of an uncertificated share in accordance with the Uncertificated Securities Regulations 2001, and, in the case of jointly held shares, where the share is to be transferred to more than four joint holders.

No fee is payable for the registration of transfers of either certificated of uncertificated shares, although there may be U.K. stamp duty and SDRT consequences.

Liquidation Rights

If NatWest Group is liquidated, the liquidator may, with the authority of a special resolution, divide among the members in specie or kind the whole or any part of the assets of NatWest Group. The liquidator may determine how

such division is to be carried out as between members or classes of members. No member shall be compelled to accept any assets on which there is a liability.

Non-voting deferred shares

On a winding-up or other return of our capital, holders of non-voting deferred shares are entitled only to payment of the amounts paid up on the non-voting deferred shares, after repayment to the holders of ordinary shares of the nominal amount paid up on the ordinary shares held by them and payment of £100,000 on each ordinary share.

General

On our winding-up, the liquidator may, with the authority of any extraordinary resolution and any other sanction required by the Insolvency Act 1986 and subject to the rights attaching to any class of shares after payment of all liabilities, including the payment to holders of preference shares, divide amongst the members in specie or kind the whole or any part of our assets or vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members and may determine the scope and terms of those trusts. No member shall be compelled to accept any assets on which there is a liability.

Disclosure of Holdings Exceeding Certain Percentages

The Disclosure and Transparency Rules require each shareholder to notify us if the voting rights held by him (including by way of certain financial instrument) reaches, exceeds or falls below 3%, 4%, 5%, 6%, 7%, 8%, 9%, 10% and each 1% threshold thereafter up to 100%. Under the Disclosure and Transparency Rules, certain voting rights in NatWest Group may be disregarded.

Pursuant to the 2006 Act, we may also send a notice to any person whom we know or believes to be interested in our shares requiring that person to confirm whether he has such an interest and if so details of that interest.

Under the articles of association and U.K. law, if a person fails to comply with such a notice or provides information that is false in a material particular in respect of any shares (the "default shares"), the Directors may serve a restriction notice on such person. Such a restriction notice will state that the default shares and, if the Directors determine, any other shares held by that person, shall not confer any right to attend or vote at any general meeting of NatWest Group.

In respect of a person with a 0.25% or more interest in our issued ordinary share capital, the Directors may direct in the restriction notice that, subject to certain exceptions, no transfers of shares held by such person (in certificated or uncertificated form) shall be registered and that any dividends or other payments on the shares shall be retained by us pending receipt by us of the information requested by the Directors.

Purchase of Shares by NatWest Group

Subject to U.K. law (which includes a requirement to obtain shareholder authority), and to any rights conferred on the holders of any class of shares and to any requirements imposed by the London Stock Exchange, we may purchase any of our own shares. The directors are not obliged to select the shares to be purchased rateably or in any other particular manner as between the holders of shares of the same class or different classes.

Conversion

Convertible preference shares carry the right to convert into ordinary shares if they have not been the subject of a notice of redemption from us, on or before a specified date determined by the Directors. The right to convert will be exercisable by service of a conversion notice on us within a specified period. We will use reasonable endeavors to arrange the sale, on behalf of convertible preference shareholders who have submitted a conversion notice, of the ordinary shares which result from such conversion and to pay to them the proceeds of such sale so that they receive net proceeds equal to the nominal value of the convertible preference shares which were the subject of the conversion notice and any premium at which such shares were issued, provided that ordinary shares will not be sold

at below a benchmark price (as determined prior to the issue of the relevant convertible preference shares by the Directors).

Lien and Forfeiture

We have a lien on every partly paid share for all amounts payable to us in respect of that share. The Directors may call any monies unpaid on shares and may sell shares on which calls or amounts payable under the terms of issues are not duly paid.

Ownership of Shares by Non-U.S. Persons

There are no provisions in the articles of association that restrict non-resident or foreign shareholders from holding NatWest Group shares or from exercising voting rights attaching to NatWest Group shares.

Untraceable Shareholders

We shall be entitled to sell, at the best price reasonably obtainable, the shares of a member or the shares to which a person is entitled by transmission if:

(i) during a period of 12 years ending on date of advertising our intention to sell such shares at least three cash dividends in respect of such shares have become payable but all dividends or other moneys payable remain unclaimed;

(ii) we have inserted advertisements in one daily newspaper with a national circulation in the United Kingdom, one Scottish daily newspaper and one newspaper circulating in the area of the last known address of the member or other person giving notice of our intention to sell the shares;

(iii) during the period referred to in sub-paragraph (i) above and the period of three months following the publication of the advertisements referred to in sub-paragraph (ii) above, we receive no indication of the whereabouts or existence of the member or other person; and

(iv) if the shares are listed on the London Stock Exchange, we give notice to the London Stock Exchange of its intention to sell the shares prior to publication of the advertisements.

The net proceeds of such sale shall belong to us, which shall be obliged to account to the former member or other person previously entitled to the shares for an amount equal to the proceeds as a creditor of NatWest Group.

ORDINARY SHARE AMERICAN DEPOSITARY SHARES

The Bank of New York Mellon, as the depositary, will register and deliver ordinary share ADSs, each representing two NatWest Group plc ordinary shares (or a right to receive two NatWest Group plc ordinary shares) deposited with the London branch of The Bank of New York Mellon, as custodian. Each ordinary share ADS will also represent any other securities, cash or other property which may be held by the depositary. The depositary's principal executive office and its corporate trust office at which the register will be administered is located at 240 Greenwich Street, New York 10286.

You may hold ordinary share ADSs either (i) directly (a) by having an ordinary share ADR, which is a certificate evidencing a specific number of ordinary share ADSs, registered in your name, or (b) by holding ordinary share ADSs in the Direct Registration System, or (ii) indirectly through your broker or other financial institution. If you hold ordinary share ADSs directly, you are an ordinary share ADS holder. This description assumes you hold your ordinary share ADSs directly. If you hold the ordinary share ADSs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ordinary share ADS holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

The Direct Registration System, or DRS, is a system administered by DTC that facilitates interchange between registered holding of uncertificated securities and holding of security entitlements in those securities through DTC and DTC participants.

As an ordinary share ADS holder, we will not treat you as one of our shareholders and you will not have shareholder rights. United Kingdom law governs shareholder rights. The depositary will be the holder of the shares underlying your ordinary share ADSs. As a holder of ordinary share ADSs, you will have ordinary share ADS holder rights. The ordinary share ADS deposit agreement among NatWest Group plc, the depositary and you, as an ordinary share ADS holder, and the beneficial owners of ordinary share ADSs sets out ordinary share ADS holder rights as well as the rights and obligations of the depositary. New York law governs the ordinary share ADS deposit agreement and the ordinary share ADSs.

NatWest Group plc may from time to time request owners of ordinary share ADSs to provide information as to (a) the capacity in which such owners own or owned ordinary share ADSs, (b) the identity of any other persons then or previously having a beneficial interest in such ordinary share ADSs and the nature of such interest and various other matters and (c) any other matter where disclosure of such matter is required for compliance with applicable laws and regulations or the articles of association or similar document of NatWest Group plc. Each owner of ordinary share ADSs agrees to provide any information requested by NatWest Group plc or the depositary pursuant to the ordinary share ADS deposit agreement. Each holder consents to the disclosure by the depositary and the owner or any other holder through which it holds ADSs, directly or indirectly, of all information responsive to a request made pursuant to the deposit agreement relating to that holder that is known to that owner or other holder. The depositary agrees to comply with reasonable written instructions received from time to time from NatWest Group plc requesting that the depositary forward any such requests to the owners of ordinary share ADSs and to forward to NatWest Group plc any such requests received by the depositary.

The following is a summary of the material provisions of the ordinary share ADS deposit agreement. For more complete information, you should read the entire ordinary share ADS deposit agreement and the form of American depositary receipt.

Dividends and Other Distributions

The depositary has agreed to pay to you the cash dividends or other distributions it or the custodian receives on ordinary shares or other deposited securities, after deducting its fees and expenses. You will receive these distributions in proportion to the number of NatWest Group plc ordinary shares your ordinary share ADSs represent.

- *Cash*. The depositary will convert any cash dividend or other cash distribution we pay on the NatWest Group plc ordinary shares into U.S. dollars, if it can do so on a reasonable basis and can transfer the U.S. dollars to the United States. If that is not possible or if any government approval is needed and cannot be obtained, the ordinary share ADS deposit agreement allows the depositary to distribute the foreign currency only to those ordinary share ADS holders to whom it is possible to do so. It will hold the foreign currency it cannot convert for the account of the ordinary share ADS holders who have not been paid. It will not invest the foreign currency and it will not be liable for any interest. Before making a distribution, any withholding taxes, or other governmental charges that must be paid, will be deducted. The depositary will distribute only whole U.S. dollars and cents and will round fractional cents to the nearest whole cent. If the exchange rates fluctuate during a time when the depositary cannot convert the foreign currency, you may lose some or all of the value of the distribution.

- *Shares*. The depositary may distribute additional ordinary share ADSs representing any shares we distribute as a dividend or free distribution. The depositary will only distribute whole ordinary share ADSs. It will sell shares which would require it to deliver a fractional ordinary share ADS and distribute the net proceeds in the same way as it does with cash. If the depositary does not distribute additional ordinary share ADSs, the outstanding ordinary share ADSs will also represent the new shares. The depositary may sell a portion of the distributed shares sufficient to pay its fees and expenses in connection with that distribution.

- *Rights to purchase additional shares*. If we offer holders of our securities any rights to subscribe for additional shares or any other rights, the depositary may, after consultation with NatWest Group plc, make these rights available to you. If the depositary decides it is not legal and practical to make the rights available but that it is practical to sell the rights, the depositary will use reasonable efforts to sell the rights and distribute the proceeds in the same way as it does with cash. The depositary will allow rights that are not distributed or sold to lapse. In that case, you will receive no value for them.

If the depositary makes rights available to you, it will exercise the rights and purchase the shares on your behalf. The depositary will then deposit the shares and deliver ordinary share ADSs to you. It will only exercise rights if you pay it the exercise price and any other charges the rights require you to pay.

U.S. securities laws may restrict transfers and cancellation of the ordinary share ADSs represented by shares purchased upon exercise of rights. For example, you may not be able to trade these ordinary share ADSs freely in the United States. In this case, the depositary may deliver restricted depositary shares that have the same terms as the ordinary share ADSs described in this section except for changes needed to put the necessary restrictions in place.

- *Other Distributions*. After consultation with NatWest Group plc to the extent practicable, the depositary will send to you anything else NatWest Group plc distributes on deposited securities by any means it thinks is legal, fair and practical. If it cannot make the distribution in that way, the depositary has a choice. It may, after consultation with NatWest Group plc to the extent practicable, decide to sell what we distributed and distribute the net proceeds, in the same way as it does with cash. Or, it may decide to hold what we distributed, in which case ordinary share ADSs will also represent the newly distributed property. However, the depositary is not required to distribute any securities (other than ordinary share ADSs) to you unless it receives reasonably satisfactory evidence from us that it is legal to make that distribution. The depositary may sell a portion of the distributed securities or property sufficient to pay its fees and expenses in connection with that distribution.

The depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ordinary share ADS holders. We have no obligation to register ordinary share ADSs, shares, rights or other securities under the Securities Act. We also have no obligation to take any other action to permit the distribution of ordinary share ADSs, shares, rights or anything else to ordinary share ADS holders. This means that you may not receive the distributions we make on our shares or any value for them if it is illegal or impractical for NatWest Group plc to make them available to you.

Deposit, Withdrawal and Cancellation

The depositary will deliver ordinary share ADSs if you or your broker deposit shares or evidence of rights to receive shares with the custodian. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees and including a U.K. SDRT charge on the value of the ordinary shares so deposited, the depositary will register the appropriate number of ordinary share ADSs in the names you request and will deliver the ordinary share ADSs to or upon the order of the person or persons that made the deposit.

You may surrender your ordinary share ADSs at the depositary's corporate trust office. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will deliver the shares and any other deposited securities underlying the ordinary share ADSs to you or a person you designate at the office of the custodian. Or, at your request, risk and expense, the depositary will deliver the deposited securities at its corporate trust office, if feasible.

You may surrender your ordinary share ADR to the depositary for the purpose of exchanging your ordinary share ADR for uncertificated ordinary share ADSs. The depositary will cancel that ordinary share ADR and will send you a statement confirming that you are the owner of uncertificated ordinary share ADSs. Alternatively, upon receipt by the depositary of a proper instruction from a holder of uncertificated ordinary share ADSs requesting the exchange of uncertificated ordinary share ADSs for certificated ordinary share ADSs, the depositary will execute and deliver to you an ordinary share ADR evidencing those ordinary share ADSs.

Voting Rights

You may instruct the depositary to vote the number of deposited shares your ordinary share ADSs represent. The depositary will notify you of shareholders' meetings and arrange to deliver our voting materials to you if we ask it to. Those materials will describe the matters to be voted on and explain how you may instruct the depositary how to vote. For instructions to be valid, they much reach the depositary by a date set by the depositary.

Otherwise, you won't be able to exercise your right to vote unless you withdraw the shares. However, you may not know about the meeting enough in advance to withdraw the shares.

The depositary shall not vote or attempt to exercise the right to vote that attaches to the deposited shares other than in accordance with the instructions given by the owners and received by the depositary, subject to the laws of the United Kingdom and our articles of association.

We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your shares. In addition, the depositary and its agents are not responsible if they fail to carry out voting instructions or for the manner of carrying out voting instructions. This means that you may not be able to exercise your right to vote and there may be nothing you can do if your shares are not voted as you requested.

In order to give you a reasonable opportunity to instruct the depositary as to the exercise of voting rights relating to Deposited Securities (as defined in the ordinary share ADS deposit agreement), if we request the depositary to act, we will try to give the depositary notice of any such meeting and details concerning the matters to be voted upon and copies of materials to be made available to holders of shares in connection with the meeting not less than 45 days in advance of the meeting date.

Fees and Expenses

For:	**Persons depositing or withdrawing shares must pay:**
• Issuance of ordinary share ADSs, including issuances resulting from a distribution of shares or rights or other property	• $5.00 (or less) per 100 ordinary share ADSs (or portion of 100 ordinary share ADSs)
• Cancellation of ordinary share ADSs for the purpose of withdrawal, including if the ordinary share ADS deposit agreement terminates	• $5.00 (or less) per 100 ordinary share ADSs (or portion of 100 ordinary share ADSs)
• Any cash distribution to you	• $0.02 (or less) per ordinary share ADS
• Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to holders	• A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ordinary share ADSs
• Depositary services	• $0.02 (or less) per ordinary share ADSs per annum
• Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares	• Registration or transfer fees
• Cable, telex and facsimile transmissions (when expressly provided in the ordinary share ADS deposit agreement)	• Expenses of the depositary
• Converting foreign currency to U.S. dollars	• Expenses of the depositary
• As necessary	• Taxes and other governmental charges the depositary or the custodian have to pay on any ordinary share ADS or share underlying an ordinary share ADS, for example, stock transfer taxes, stamp duty or withholding taxes
• As necessary	• Any charges incurred by the depositary or its agents for servicing the deposited securities

Payment of Taxes

You will be responsible for any taxes or other governmental charges payable on your ordinary share ADSs or on the deposited securities represented by any of your ordinary share ADSs. The depositary may refuse to register any transfer of your ordinary share ADSs or allow you to withdraw the deposited securities represented by your ordinary share ADSs until such taxes or other charges are paid. It may apply payments owed to you or sell deposited securities represented by your ordinary share ADSs to pay any taxes owed and you will remain liable for any deficiency. If the depositary sells deposited securities, it will, if appropriate, reduce the number of ordinary share ADSs to reflect the sale and pay to you any proceeds, or send to you any property, remaining after it has paid the taxes.

Reclassifications, Recapitalizations and Mergers

If we:

- change the nominal or par value of our shares
- reclassify, split up or consolidate any of the deposited securities
- distribute securities on the shares that are not distributed to you
- recapitalize, reorganize, merge, liquidate, sell all or substantially all of our assets, or take any similar action

then the cash, shares or other securities received by the depositary will become deposited securities. Each ordinary share ADS will automatically represent its equal share of the new deposited securities. The depositary may, and will if we ask it to, distribute some or all of the cash, shares or other securities it received. It may also deliver new ordinary share ADRs or ask you to surrender your outstanding ordinary share ADRs in exchange for new ordinary share ADRs identifying the new deposited securities.

Amendment and Termination

We may agree with the depositary to amend the ordinary share ADS deposit agreement and the ordinary share ADRs without your consent for any reason. If an amendment adds or increases fees or charges, except for taxes and other governmental charges or expenses of the depositary for registration fees, facsimile costs, delivery charges or similar items, or prejudices a substantial right of ordinary share ADS holders, it will not become effective for outstanding ordinary share ADSs until 30 days after the depositary notifies ordinary share ADS holders of the amendment. At the time an amendment becomes effective, you are considered, by continuing to hold your ordinary share ADSs, to agree to the amendment and to be bound by the ordinary share ADRs and the ordinary share ADS deposit agreement as amended.

The depositary will terminate the ordinary share ADS deposit agreement at our direction by mailing notice of termination to the ordinary share ADS holders then outstanding at least 30 days prior to the date fixed in such notice for such termination. The depositary may also terminate the ordinary share ADS deposit agreement by mailing notice of termination to us and the ordinary share ADS holders then outstanding if 60 days have passed since the depositary told us it wants to resign but a successor depositary has not been appointed and accepted its appointment.

After termination, the depositary and its agents will do the following under the ordinary share ADS deposit agreement but nothing else: collect distributions on the deposited securities, sell rights and other property, and deliver shares and other deposited securities upon cancellation of ordinary share ADSs. Four months after termination, the depositary may sell any remaining deposited securities by public or private sale. After that, the depositary will hold the money it received on the sale, as well as any other cash it is holding under the ordinary share ADS deposit agreement for the pro rata benefit of the ordinary share ADS holders that have not surrendered their ordinary share ADSs. It will not invest the money and has no liability for interest. The depositary's only obligations will be to account for the money and other cash. After termination our only obligations will be to indemnify the depositary and to pay fees and expenses of the depositary that we agreed to pay.

Limitations on Obligations and Liability

The ordinary share ADS deposit agreement expressly limits our obligations and the obligations of the depositary. It also limits our liability and the liability of the depositary. We and the depositary:

- are only obligated to take the actions specifically set forth in the ordinary share ADS deposit agreement without negligence or bad faith;
- are not liable if we are or it is prevented or delayed by law or circumstances beyond our control from performing our or its obligations under the ordinary share ADS deposit agreement;
- are not liable if we or it exercises, or fails to exercise, discretion permitted under the ordinary share ADS deposit agreement;
- have no obligation to become involved in a lawsuit or other proceeding related to the ordinary share ADSs or the ordinary share ADS deposit agreement on your behalf or on behalf of any other person; and
- may rely upon any documents we believe or it believes in good faith to be genuine and to have been signed or presented by the proper person.

In the ordinary share ADS deposit agreement, we and the depositary agree to indemnify each other under certain circumstances.

Requirements for Depositary Actions

Before the depositary will deliver or register a transfer of an ordinary share ADS, make a distribution on an ordinary share ADS, or permit withdrawal of shares, the depositary may require:

- payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any shares or other deposited securities;
- satisfactory proof of the identity and genuineness of any signature or other information it deems necessary; and
- compliance with regulations it may establish, from time to time, consistent with the ordinary share ADS deposit agreement, including presentation of transfer documents.

The depositary may refuse to deliver ordinary share ADSs or register transfers of ordinary share ADSs generally when the transfer books of the depositary or our transfer books are closed or at any time if the depositary or we think it advisable to do so.

Your Right to Receive the Shares Underlying your Ordinary Share ADRs

You have the right to cancel your ordinary share ADSs and withdraw the underlying shares at any time except:

- When temporary delays arise because: (i) the depositary has closed its transfer books or we have closed our transfer books; (ii) the transfer of shares is blocked to permit voting at a shareholders' meeting; or (iii) we are paying a dividend on our shares.
- When you owe money to pay fees, taxes and similar charges.
- When it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to ordinary share ADSs or to the withdrawal of shares or other deposited securities.

This right of withdrawal may not be limited by any other provision of the ordinary share ADS deposit agreement.

Direct Registration System

In the ordinary share ADS deposit agreement, all parties to the ordinary share ADS deposit agreement acknowledge that the DRS and Profile Modification System, or Profile, will apply to ordinary share ADSs upon acceptance thereof to DRS by the DTC. DRS is the system administered by DTC that facilitates interchange between registered holding of uncertificated securities and holding of security entitlements in those securities through DTC and a DTC participant. Profile is a required feature of DRS which allows a DTC participant, claiming to act on behalf of an ordinary share ADS holder, to direct the depositary to register a transfer of those ordinary share ADSs to DTC or its nominee and to deliver those ordinary share ADSs to the DTC account of that DTC participant without receipt by the depositary of prior authorization from the ordinary share ADS holder to register such transfer.

In connection with and in accordance with the arrangements and procedures relating to DRS/Profile, the parties to the ordinary share ADS deposit agreement understand that the depositary will not verify, determine or otherwise ascertain that the DTC participant which is claiming to be acting on behalf of an ordinary share ADS holder in requesting registration of transfer and delivery described in the paragraph above has the actual authority to act on behalf of the ordinary share ADS holder (notwithstanding any requirements under the Uniform Commercial Code). In the ordinary share ADS deposit agreement, the parties agree that the depositary's reliance on and compliance with instructions received by the depositary through the DRS/Profile System and in accordance with the ordinary share ADS deposit agreement, shall not constitute negligence or bad faith on the part of the depositary.

DEBT SECURITIES

Each series of notes listed on the New York Stock Exchange and set forth on the cover page to NatWest Group's annual report on Form 20-F for the fiscal year ended December 31, 2022 has been issued by NatWest Group or by NatWest Markets plc ("NWM") (formerly known as Royal Bank of Scotland plc) and guaranteed by NatWest Group. Each of these series of notes and related guarantees, as applicable, was issued pursuant to an effective registration statement and a related prospectus and prospectus supplement (if applicable) setting forth the terms of the relevant series of notes and related guarantees, as applicable.

The following table sets forth the dates of the registration statements, dates of the base prospectuses and dates of issuance for each relevant series of notes (the "Notes").

Series	Issuer	Registration Statement	Date of Base Prospectus	Date of Issuance
Dollar Perpetual Regulatory Tier 1 Securities	NWG	333-11104	June 5, 2001	August 13, 2001
6.000% Subordinated Tier 2 Notes due 2023	NWG	333-184147	September 28, 2012	December 19, 2013
6.100% Subordinated Tier 2 Notes due 2023	NWG	333-184147	September 28, 2012	June 10, 2013
Fixed-to-Fixed Reset Rates Subordinated Tier 2 Notes due 2029	NWG	333-222022	December 13, 2017	November 1, 2019
Fixed-to-Fixed Reset Rates Subordinated Tier 2 Notes due 2035	NWG	333-222022	December 13, 2017	August 25, 2020
3.875% Senior Notes due 2023	NWG	333-203157	March 31, 2015	September 12, 2016
3.498% Fixed Rate / Floating Rate Senior Notes due 2023	NWG	333-203157	March 31, 2015	May 15, 2017
2.359% Senior Callable Fixed-to-Fixed Reset Rate Green Notes due 2024	NWG	333-222022	December 13, 2017	May 19, 2020
4.519% Fixed Rate / Floating Rate Senior Notes due 2024	NWG	333-222022	December 13, 2017	June 25, 2018
4.269% Fixed Rate / Floating Rate Senior Notes due 2025	NWG	333-222022	December 13, 2017	March 22, 2019
3.073% Senior Callable Fixed-to-Fixed Reset Rate Notes due 2028	NWG	333-222022	December 13, 2017	May 19, 2020
5.076% Fixed Rate / Floating Rate Senior Notes due 2030	NWG	333-222022	December 13, 2017	September 27, 2018
4.445% Fixed Rate / Floating Rate Senior Notes due 2030	NWG	333-222022	December 13, 2017	May 8, 2019
Senior Floating Rate Notes due 2023	NWG	333-203157	March 31, 2015	May 15, 2017
Senior Floating Rate Notes due 2024	NWG	333-222022	December 13, 2017	June 25, 2018
5.125% Subordinated Tier 2 Notes due 2024	NWG	333-184147	September 28, 2012	May 28, 2014
4.892% Fixed Rate / Floating Rate Senior Notes due 2029	NWG	333-222022	December 13, 2017	May 18, 2018
1.642% Senior Callable Fixed-to-Fixed Reset Rate Notes due 2027	NWG	333-251220	December 9, 2020	June 9, 2021
5.516% Senior Callable Fixed-to-Fixed Reset Rate Notes due 2028	NWG	333-261837	January 11, 2022	June 30, 2022

The following descriptions of our Notes are summaries and do not purport to be complete and are qualified in their entirety by the full terms of the Notes and the relevant indentures related thereto, which are available at www.sec.gov. The description sets out the general terms of the Notes contained in the base prospectus under which the Notes were issued, followed by a description for each series of Notes of the particular terms applicable to such series contained in the applicable prospectus supplement. To the extent language in the applicable prospectus supplement modifies the language in the applicable base prospectus or there is any inconsistency between the information in such base prospectus and the applicable prospectus supplement, then the term of that prospectus supplement governs. In this description, references to the "accompanying prospectus" refer to the relevant base prospectus for the Notes and references to the "accompanying prospectus supplement" refer to the relevant prospectus supplement for the Notes.

BASE PROSPECTUSES

A. Base Prospectus dated June 5, 2001

Please refer to pages 33-42 of Exhibit 2.5 of the 2019 Annual Report, available at https://www.sec.gov/Archives/edgar/data/844150/000110465920026118/a19-22922_1ex2d5.htm.

B. Base Prospectus dated September 28, 2012

Please refer to pages 51-62 of Exhibit 2.5 of the 2019 Annual Report, available at https://www.sec.gov/Archives/edgar/data/844150/000110465920026118/a19-22922_1ex2d5.htm.

C. Base Prospectus dated March 31, 2015

Please refer to pages 63-77 of Exhibit 2.5 of the 2019 Annual Report, available at https://www.sec.gov/Archives/edgar/data/844150/000110465920026118/a19-22922_1ex2d5.htm.

D. Base Prospectus dated December 13, 2017

Please refer to pages 78-91 of Exhibit 2.5 of the 2019 Annual Report, available at https://www.sec.gov/Archives/edgar/data/844150/000110465920026118/a19-22922_1ex2d5.htm.

E. Base Prospectus dated December 9, 2020

Please refer to pages 15-32 of Exhibit 2.4 of the 2021 Annual Report, available at https://www.sec.gov/Archives/edgar/data/844150/000110465922030147/nwg-20211231xex2d4.htm

F. Base Prospectus dated January 11, 2022

DESCRIPTION OF DEBT SECURITIES

The following is a summary of the general terms that will apply to any senior debt securities and subordinated debt securities that may be offered by NatWest Group plc. Consequently, when we refer to "debt securities" in this prospectus, we mean the senior debt securities and the subordinated debt securities that may be issued by NatWest Group plc. The term "debt securities" does not include the "contingent convertible securities" described under "Description of Contingent Convertible Securities".

Each time that we issue debt securities, we will file a prospectus supplement with the SEC, which you should read carefully. The prospectus supplement will summarize specific terms of your security and may contain additional terms of those debt securities to those described in this prospectus or terms that differ from those described in this prospectus. The terms presented here, together with the terms contained in the prospectus supplement, will be a description of the material terms of the debt securities, but if there is any inconsistency between the terms presented here and those in the prospectus supplement, those in the prospectus supplement will apply and will replace those presented here. Therefore, the statements we make below in this section may not apply to your debt security. You should also read the indentures under which we will issue the debt securities, which we have filed with the SEC as exhibits to the registration statement of which this prospectus is a part.

Senior debt securities will be issued by NatWest Group plc under the senior debt indenture as supplemented by supplemental indentures as required. Subordinated debt securities will be issued by NatWest Group plc under the subordinated debt indenture as supplemented by supplemental indentures as required.

Each indenture is a contract between us and The Bank of New York Mellon, as trustee. The indentures are substantially identical, except for certain provisions such as those relating to subordination, which are included only in the subordinated debt indenture and may be included in any supplements thereto. None of the indentures limit our ability to incur additional indebtedness, including additional senior indebtedness.

General

The debt securities are not deposits and are not insured or guaranteed by the U.S. Federal Deposit Insurance Corporation or any other government agency of the United States or the United Kingdom.

The indentures do not limit the amount of debt securities that we may issue. We may issue debt securities in one or more series. The relevant prospectus supplement for any particular series of debt securities will describe the terms of the offered debt securities, including some or all of the following terms:

- whether they are senior debt securities or subordinated debt securities;
- with respect to the subordinated debt securities, whether the payment of interest can be deferred, whether the payment of principal can be deferred, the subordination terms, the redemption terms and the events of default applicable to each series of the subordinated debt securities;
- their specific designation, authorized denomination and aggregate principal amount;
- the price or prices at which they will be issued;
- whether such debt securities will be dated debt securities with a specified maturity date or undated debt securities with no specified maturity date;
- the annual interest rate or rates, or how to calculate the interest rate or rates;
- the date or dates from which interest, if any, will accrue or the method, if any, by which such date or dates will be determined;
- the times and places at which any interest payments are payable;

- the terms of any mandatory or optional redemption, including the amount of any premium;
- any modifications or additions to the events of default with respect to the debt securities offered;
- any provisions relating to conversion or exchange for other securities issued by us;
- the currency or currencies in which they are denominated and in which we will make any payments;
- any index used to determine the amount of any payments on the debt securities;
- any restrictions that apply to the offer, sale and delivery of the debt securities and the exchange of debt securities of one form for debt securities of another form;
- whether and under what circumstances, if other than those described in this prospectus, we will pay additional amounts on the debt securities following certain developments with respect to withholding tax or information reporting laws and whether, and on what terms, if other than those described in this prospectus, we may redeem the debt securities following those developments;
- the terms of any mandatory or optional exchange; and
- any listing on a securities exchange.

In addition, the prospectus supplement will describe the material U.S. federal and U.K. tax considerations that apply to any particular series of debt securities.

Debt securities may bear interest at a fixed rate, a floating rate or a combination thereof. We will sell any subordinated debt securities that bear no interest, or that bear interest at a rate that at the time of issuance is below the prevailing market rate, at a discount to their stated principal amount.

Holders of debt securities shall have no voting rights except those described under the heading " –Modification and Waiver" below.

If we issue senior debt securities designed to count towards the EU minimum requirements for own funds and eligible liabilities framework, the terms (including the events of default and redemption options) of those securities may differ from those described in this prospectus and will be set out in the relevant prospectus supplement.

If we issue subordinated debt securities that qualify as Tier 2 capital or other capital for regulatory purposes, the payment, subordination, redemption, events of default and other terms may vary from those described in this prospectus and will be set forth in the relevant prospectus supplement.

Payments

We will make any payments of interest and principal, on any particular series of debt securities on the dates and, in the case of payments of interest, at the rate or rates, that we set out in, or that are determined by the method of calculation described in, the relevant prospectus supplement.

Subordinated Debt Securities

Unless the relevant prospectus supplement provides otherwise, if we do not make a payment on a series of subordinated debt securities on any payment date, our obligation to make such payment shall be deferred and such failure to make a payment does not create a default under the applicable subordinated debt indenture. The relevant prospectus supplement will set forth the terms on which the payment of interest and principal on the subordinated debt securities can be deferred and any other terms relating to payments on subordinated debt securities.

Subordination

Senior Debt Securities

Unless the relevant prospectus supplement provides otherwise, senior debt securities constitute our direct, unconditional, unsecured and unsubordinated obligations ranking pari passu, without any preference among themselves, with all of our other outstanding unsecured and unsubordinated obligations, present and future, except such obligations as are preferred by operation of law.

Subordinated Debt Securities

If we issue subordinated debt securities, the applicable prospectus supplement relating to the subordinated debt securities will include a description of the subordination provisions that apply to the subordinated debt securities.

Unless the relevant prospectus supplement provides otherwise, in a winding-up or qualifying administration, all payments on any series of subordinated debt securities will be subordinate to, and subject in right of payment to the prior payment in full of, all claims of all of our creditors other than claims in respect of any liability that is, or is expressed to be, subordinated, whether only in the event of a winding-up, qualifying administration or otherwise, to the claims of all or any of our creditors, in the manner provided in the applicable subordinated debt indenture.

General

As a consequence of these subordination provisions, if winding-up proceedings or a qualifying administration should occur, each holder of subordinated debt securities may recover less ratably than the holders of our unsubordinated liabilities (including holders of senior debt securities). If, in any winding-up or qualifying administration, the amount payable on any series of debt securities and any claims ranking equally with that series are not paid in full, those debt securities and other claims ranking equally will share ratably in any distribution of our assets in a winding-up or a qualifying administration in proportion to the respective amounts to which they are entitled. If any holder is entitled to any recovery with respect to the debt securities in any winding-up, liquidation or qualifying administration, the holder might not be entitled in those proceedings to a recovery in U.S. dollars and might be entitled only to a recovery in pounds sterling or any other lawful currency of the United Kingdom.

In addition, because NatWest Group plc is a holding company, its rights to participate in the assets of any subsidiary as a shareholder if such subsidiary is liquidated will be subject to the prior claims of such subsidiary's creditors.

Additional Amounts

All amounts to be paid by us on any series of debt securities will be paid without deduction or withholding for, or on account of, any and all present and future income, stamp and other taxes, levies, imposts, duties, charges, fees, deductions or withholdings now or hereafter imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom or any political subdivision or any authority thereof or therein having the power to tax (the "U.K. Taxing Jurisdiction"), unless such deduction or withholding is required by law.

Unless otherwise specified in the relevant prospectus supplement, if deduction or withholding of any such taxes, levies, imposts, duties, charges, fees, deductions or withholdings shall at any time be required by the U.K. Taxing Jurisdiction, we will pay such additional amounts with respect to the principal of, premium, if any, and interest, if any, on any series of debt securities ("Additional Amounts") as may be necessary in order that the net amounts paid to the holders of the debt securities of the particular series, after such deduction or withholding, shall equal the amounts of such payments which would have been payable in respect of such debt securities had no such deduction or withholding been required; provided, however, that the foregoing will not apply to any such tax, levy, impost, duty, charge, fee, deduction or withholding that would not have been payable or due but for the fact that:

(i) the holder or the beneficial owner of the debt security is a domiciliary, national or resident of, or engaging in business or maintaining a permanent establishment or physically present in, the U.K. Taxing Jurisdiction or otherwise has some connection with the U.K. Taxing Jurisdiction other than the mere holding or ownership of a debt security, or the collection of the payment on any debt security of the relevant series,

(ii) except in the case of a winding-up of us in the United Kingdom, the relevant debt security is presented (where presentation is required) for payment in the United Kingdom,

(iii) the relevant debt security is presented (where presentation is required) for payment more than 30 days after the date payment became due or was provided for, whichever is later, except to the extent that the holder would have been entitled to such Additional Amount on presenting (where presentation is required) the debt security for payment at the close of such 30 day period,

(iv) the holder or the beneficial owner of the relevant debt security or the payment on such debt security failed to comply with a request by us or our liquidator or other authorized person addressed to the holder (x) to provide information concerning the nationality, residence or identity of the holder or such beneficial owner or (y) to make any declaration or other similar claim to satisfy any requirement, which in the case of (x) or (y), is required or imposed by a statute, treaty, regulation or administrative practice of the U.K. Taxing Jurisdiction as a precondition to exemption or relief from all or part of such deduction or withholding,

(v) the withholding or deduction is required to be made pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended, any agreement with the U.S. Treasury entered into with respect thereto, any U.S. Treasury regulation issued thereunder or any other official interpretations or guidance issued with respect thereto; any intergovernmental agreement entered into with respect thereto, or any law, regulation, or other official interpretation or guidance promulgated pursuant to such an intergovernmental agreement, or

(vi) any combination of subclauses (i) through (v) above, nor shall Additional Amounts be paid with respect to a payment on the debt security to any holder who is a fiduciary or partnership or person other than the sole beneficial owner of such payment to the extent such payment would be required by the laws of the U.K. Taxing Jurisdiction to be included in the income for tax purposes of a beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner who would not have been entitled to such Additional Amounts, had it been the holder.

As used in this "Additional Amounts" section, the term "payment" means, in the context of senior debt securities and subordinated debt securities, payments of principal of, premium, if any, and interest, if any, on such securities. Whenever in this prospectus or any prospectus supplement there is mentioned, in the context of senior debt securities or subordinated debt securities, the payment of the principal, premium, if any, or interest, if any, on, or in respect of, any such security of any series, such mention shall be deemed to include mention of the payment of Additional Amounts provided for in this "Additional Amounts" section to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof pursuant to the provisions of this section and as if express mention of the payment of Additional Amounts (if applicable) were made in any provisions hereof where such express mention is not made.

Redemption

Unless the relevant prospectus supplement provides otherwise, we will have the option to redeem the debt securities of any series as a whole upon (i) not less than five business days, and not more than 60 calendar days' notice in respect of the senior debt securities, or (ii) not less than 30 days, and not more than 60 days' notice in respect of our subordinated debt securities, to each holder of debt securities, on any payment date, at a redemption price equal to 100% of their principal amount together with any accrued but unpaid payments of interest, if any (including any deferred amounts in the case of subordinated debt securities), to the redemption date, or, in the case of discount securities, their accreted face amount, together with any accrued interest, if, at any time, we determine that as a result of a change in or amendment to the laws or regulations of a U.K. Taxing Jurisdiction, including any

treaty to which it is a party, or a change in an official application or interpretation of those laws or regulations, including a decision of any court or tribunal, which becomes effective on or after the date specified in the terms of the debt securities:

- in making any payments on the particular series of debt securities, we have paid or will or would on the next payment date be required to pay Additional Amounts;
- payments on the next payment date in respect of any of the series of debt securities would be treated as "distributions" within the meaning of Section 1000 of the Corporation Tax Act 2010 of the United Kingdom (or any statutory modification or re-enactment thereof for the time being); or
- on the next payment date we would not be entitled to claim a deduction in respect of the payments in computing our U.K. taxation liabilities, or the value of the deduction to us would be materially reduced.

In each case we shall be required, before we give a notice of redemption, to deliver to the trustee a written legal opinion of independent English counsel of recognized standing, selected by us, in a form satisfactory to the trustee confirming that we are entitled to exercise our right of redemption.

The relevant prospectus supplement will specify whether or not we may redeem the debt securities of any series, in whole or in part, at our option, including any conditions to our right to exercise such option, in any other circumstances and, if so, the prices and any premium at which and the dates on which we may do so. Any notice of redemption of debt securities of any series will state, among other items:

- the redemption date;
- the amount of debt securities to be redeemed if less than all of the series is to be redeemed;
- the redemption price;
- that, and subject to what conditions, the redemption price will become due and payable on the redemption date and that payments will cease to accrue on such date;
- the place or places at which each holder may obtain payment of the redemption price; and
- the CUSIP, Common Code and/or ISIN number or numbers, if any, with respect to debt securities

In the case of a partial redemption, the trustee shall select the debt securities to be redeemed in any manner which it deems fair and appropriate.

We or any of our subsidiaries may at any time and from time to time purchase debt securities of any series in the open market or by tender or by private agreement, if applicable law allows and if, in the case of the subordinated debt securities, certain other conditions which may be specified in the applicable prospectus supplement are satisfied. Any debt securities of any series that we purchase beneficially for our own account, other than in connection with dealing in securities, will be treated as cancelled and will no longer be issued and outstanding.

Under existing U.K. Prudential Regulatory Authority ("PRA") requirements, we may not make any redemption or repurchase of certain debt securities beneficially for our own account unless, among other things, we give prior notice to the PRA and, in certain circumstances, it grants permission. The PRA may impose conditions on any redemption or repurchase all of which will be set out in the prospectus supplement and supplemental indenture with respect to any series of debt securities.

Modification and Waiver

We and the trustee may make certain modifications and amendments of the applicable indenture with respect to any series of debt securities without the consent of the holders of the debt securities. We may make other modifications and amendments with the consent of the holder or holders of not less than a majority in aggregate outstanding principal amount of the debt securities of the series outstanding under the indenture that are affected by the modification or amendment, voting as one class. However, we may not make any modification or amendment without the consent of the holder of each debt security affected that would:

- change the stated maturity of the principal amount of any debt security;
- reduce the principal amount of, the interest rates of, or any premium payable upon the redemption of, any debt security;
- change our (or any successor's) obligation to pay Additional Amounts;
- change the currency of payment;
- impair the right to institute suit for the enforcement of any payment due and payable;
- reduce the percentage in aggregate principal amount of outstanding debt securities of the series necessary to modify or amend the indenture or to waive compliance with certain provisions of the relevant indenture and any Senior Debt Security Event of Default, Subordinated Debt Security Event of Default or Subordinated Debt Security Default (as such terms are defined below and described in the relevant prospectus supplement);
- modify the subordination provisions or the terms of our obligations in respect of the due and punctual payment of the amounts due and payable on the debt securities in a manner adverse to the holders; or
- modify the above requirements.

In addition, variations in the terms and conditions of debt securities of any series, including modifications relating to subordination, redemption, a Senior Debt Security Event of Default, Subordinated Debt Security Event of Default or Subordinated Debt Security Default (as those terms are defined under the heading "Event of Default and Defaults; Limitations of Remedies" below), as described in the relevant prospectus supplement, may require the non-objection from, or consent of, the PRA or its successor.

Events of Default and Defaults; Limitation of Remedies

Senior Debt Security Event of Default

Unless the relevant prospectus supplement provides otherwise, a "Senior Debt Security Event of Default" with respect to any series of senior debt securities shall result if:

- we do not pay any principal or interest on any senior debt securities of that series within 14 days from the due date for payment and the principal or interest has not been duly paid within a further 14 days following written notice from the trustee or from holders of 25% in outstanding principal amount of the senior debt securities of that series to us requiring the payment to be made. It shall not, however, be a Senior Debt Security Event of Default if during the 14 days after the notice, we satisfy the trustee that such sums were not paid in order to comply with a law, regulation or order of any court of competent jurisdiction. Where there is doubt as to the validity or applicability of any such law, regulation or order, it shall not be a Senior Debt Security Event of Default if we act on the advice given to us during the 14 day period by independent legal advisers approved by the trustee; or

- we breach any covenant or warranty of the senior debt indenture (other than as stated above with respect to payments when due) and that breach has not been remedied within 60 days of receipt of a written notice from the trustee certifying that in its opinion the breach is materially prejudicial to the interests of the holders of the senior debt securities of that series and requiring the breach to be remedied or from holders of at least 25% in outstanding principal amount of the senior debt securities of that series requiring the breach to be remedied; or

- either a court of competent jurisdiction issues an order which is not successfully appealed within 30 days, or an effective shareholders' resolution is validly adopted, for our winding-up (other than under or in connection with a scheme of reconstruction, merger or amalgamation not involving bankruptcy or insolvency).

If a Senior Debt Security Event of Default occurs and is continuing, the trustee or the holders of at least 25% in outstanding principal amount of the senior debt securities of that series may at their discretion declare the senior debt securities of that series to be due and repayable immediately (and the senior debt securities of that series shall thereby become due and repayable) at their outstanding principal amount (or at such other repayment amount as may be specified in or determined in accordance with the relevant prospectus supplement) together with accrued interest, if any, as provided in the prospectus supplement. The trustee may at its discretion and without further notice institute such proceedings as it may think suitable, against us to enforce payment. Subject to the indenture provisions for the indemnification of the trustee and the securities administrator, as the case may be, the holder(s) of a majority in aggregate principal amount of the outstanding senior debt securities of any series shall have the right to direct the time, method and place of conducting any proceeding in the name or and on the behalf of the trustee for any remedy available to the trustee or exercising any trust or power conferred on the trustee with respect to the series. However, this direction must not be in conflict with any rule of law or the senior debt indenture, and must not be unjustly prejudicial to the holder(s) of any senior debt securities of that series not taking part in the direction, and determined by the trustee. The trustee may also take any other action consistent with the direction that it deems proper.

Notwithstanding any contrary provisions, nothing shall impair the right of a holder, absent the holder's consent, to sue for any payments due but unpaid with respect to the senior debt securities.

Unless the relevant prospectus supplement provides otherwise, by accepting a senior debt security, each holder will be deemed to have waived any right of set-off, counterclaim or combination of accounts with respect to the senior debt securities or the applicable indenture that they might otherwise have against us, whether before or during our winding-up.

Subordinated Debt Securities Event of Default

Unless the relevant prospectus supplement provides otherwise, a "Subordinated Debt Security Event of Default" with respect to any series of subordinated debt securities shall result if either a court of competent jurisdiction issues an order which is not successfully appealed within 30 days, or an effective shareholders' resolution is validly adopted, for our winding-up (other than under or in connection with a scheme of amalgamation or reconstruction not involving our bankruptcy or insolvency).

If a Subordinated Debt Security Event of Default occurs and is continuing, the trustee or the holders of at least 25% in aggregate principal amount of the outstanding subordinated debt securities of each series may declare to be due and payable immediately in accordance with the terms of the applicable indenture the principal amount of, and any accrued but unpaid payments (or, in the case of discount securities, the accreted face amount, together with any accrued interest), including any deferred interest. However, after this declaration but before the trustee obtains a judgment or decree for payment of money due, the holder or holders of a majority in aggregate principal amount of the outstanding subordinated debt securities of the series may rescind the declaration of accelerations and its consequences, but only if all Subordinated Debt Security Events of Default have been remedied or waived and all payments due, other than those due as a result of acceleration, have been made.

Subordinated Debt Securities Defaults

In addition to Subordinated Debt Security Events of Default, the subordinated debt indenture also separately provides for "Subordinated Debt Security Defaults". The relevant prospectus supplement with respect to any series of subordinated debt securities shall set out what events, if any, shall be considered Subordinated Debt Security Defaults. The indenture permits the issuance of subordinated debt securities in one or more series and whether a Subordinated Debt Security Default has occurred is determined on a series-by-series basis.

Unless the relevant prospectus supplement provides otherwise, if a Subordinated Debt Security Default occurs and is continuing, the trustee may commence a proceeding in Scotland (but not elsewhere) for our winding-up, but the trustee may not declare the principal amount of any outstanding subordinated debt security due and payable. The relevant prospectus supplement will set forth further actions provided in the subordinated debt securities indenture relating to the rights of holders in connection with the occurrence of a Subordinated Debt Security Default, if any, that may be taken by the trustee upon the occurrence of a Subordinated Debt Security Default.

Unless the relevant prospectus supplement provides otherwise, by accepting a subordinated debt security each holder and the trustee will be deemed to have waived any right of set-off, counterclaim or combination of accounts with respect to the subordinated debt securities or the indenture (or between our obligations under or in respect of any subordinated debt security and any liability owed by a holder or the trustee to us) that they might otherwise have against us, whether before or during our winding-up.

Events of Default and Defaults - General

The holder or holders of not less than a majority in aggregate principal amount of the outstanding debt securities of any series may waive any past Senior Debt Security Event of Default, Subordinated Debt Security Event of Default or Subordinated Debt Security Default with respect to the series, except a Senior Debt Security Event of Default, Subordinated Debt Security Event of Default or Subordinated Debt Security Default, in respect of the payment of interest, if any, or principal of (or premium, if any) or payments on any debt security or a covenant or provision of the applicable indenture which cannot be modified or amended without the consent of each holder of debt securities of such series.

Subject to exceptions, the trustee may, without the consent of the holders, waive or authorize a Senior Debt Security Event of Default if, in the opinion of the trustee, the Senior Debt Security Event of Default would not be materially prejudicial to the interests of the holders.

Subject to the provisions of the applicable indenture relating to the duties of the trustee, if a Senior Debt Security Event of Default, Subordinated Debt Security Event of Default or Subordinated Debt Security Default occurs and is continuing with respect to the debt securities of any series, the trustee will be under no obligation to any holder or holders of the debt securities of the series, unless they have offered reasonable indemnity to the trustee. Subject to the indenture provisions for the indemnification of the trustee, the holder or holders of a majority in aggregate principal amount of the outstanding debt securities of any series shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred on the trustee with respect to the series, if the direction is not in conflict with any rule of law or with the applicable indenture and the trustee does not determine that the action would be unjustly prejudicial to the holder or holders of any debt securities of any series not taking part in that direction. The trustee may take any other action that it deems proper which is not inconsistent with that direction.

The indentures provide that the trustee will, within 90 days after the occurrence of a Senior Debt Security Event of Default, Subordinated Debt Security Event of Default or Subordinated Debt Security Default with respect to the debt securities of any series, give to each holder of the debt securities of the affected series notice of the Senior Debt Security Event of Default, Subordinated Debt Security Event of Default or Subordinated Debt Security Default known to it, unless the Senior Debt Security Event of Default, Subordinated Debt Security Event of Default or Subordinated Debt Security Default has been cured or waived. However, the trustee shall be protected in withholding notice if it determines in good faith that withholding notice is in the interest of the holders.

We are required to furnish to the trustee annually a statement as to our compliance with all conditions and covenants under the indenture.

Consolidation, Merger and Sale of Assets; Assumption

We may, without the consent of the holders of any of the debt securities, consolidate with, merge into or transfer or lease our assets substantially as an entirety to any person, provided that any successor corporation formed by any consolidation or amalgamation, or any transferee or lessee of our assets, is a company organized under the laws of any part of the United Kingdom that assumes, by a supplemental indenture, our obligations on the debt securities and under the applicable indenture, and we procure the delivery of a customary officer's certificate and legal opinion providing that the conditions precedent to the transaction have been complied with.

Subject to applicable law and regulation, any of our wholly-owned subsidiaries may assume our obligations under the debt securities of any series without the consent of any holder, provided that certain conditions are satisfied, including that under certain indentures we unconditionally guarantee the obligations of the subsidiary under the debt securities of that series. If we do and the other relevant conditions for such assumption are satisfied, all of our direct obligations under the debt securities of the series and the applicable indenture shall immediately be discharged. Any Additional Amounts under the debt securities of the series will be payable in respect of taxes imposed by the jurisdiction in which the assuming subsidiary is incorporated, subject to exceptions equivalent to those that apply to any obligation to pay Additional Amounts in respect of taxes imposed by the U.K. Taxing Jurisdiction, rather than taxes imposed by the U.K. Taxing Jurisdiction. The subsidiary that assumes our obligations will also be entitled to redeem the debt securities of the relevant series in the circumstances described in "–Redemption" above with respect to any change or amendment to, or change in the application or official interpretation of, the laws or regulations (including any treaty) of the assuming subsidiary's jurisdiction of incorporation which occurs after the date of the assumption.

An assumption of our obligations under the debt securities of any series might be deemed for U.S. federal income tax purposes to be an exchange of those debt securities for new debt securities by each beneficial owner, resulting in a recognition of taxable gain or loss for U.S. federal income tax purposes and possibly certain other adverse tax consequences. You should consult your tax advisor regarding the U.S. federal, state and local income tax consequences of an assumption.

Governing Law

The debt securities and the indentures will be governed by and construed in accordance with the laws of the State of New York, except that, as the indentures specify, the subordination provisions and the waiver of the right to set-off by the holders and by the Trustee acting on behalf of the holders of each series of subordinated debt securities will be governed by and construed in accordance with the laws of Scotland.

Notices

All notices to holders of registered debt securities shall be validly given if in writing and mailed, first-class postage prepaid, to them at their respective addresses in the register maintained by the trustee.

Until such time as any definitive securities are issued, there may, so long as any global securities in registered form representing the debt securities are held in their entirety on behalf of DTC, be substituted for such notice by first-class mail the delivery of the relevant notice to DTC for communication by them to the holders of the debt securities, in accordance with DTC's applicable procedures. Neither the failure to give any notice to a particular holder, nor any defect in a notice given to a particular holder, will affect the sufficiency of any notice given to another holder.

Notices to be given by any holders of the debt securities to the trustee shall be in writing to the trustee at its corporate trust office. While any of the debt securities are represented by a global securities in registered form, such notice may be given by any holder to the trustee through DTC in such manner as DTC may approve for this purpose.

The Trustees and Securities Administrator

The Bank of New York Mellon, acting through its London Branch, One Canada Square, London E14 5AL, is the trustee under the indentures with respect to the debt securities. The trustee shall have and be subject to all the duties and responsibilities specified with respect to an indenture trustee under the Trust Indenture Act of 1939 (the "TIA"). Subject to the provisions of the TIA, the trustees are under no obligation to exercise any of the powers vested in them by the indentures at the request of any holder of notes, unless offered reasonable indemnity by the holder against the costs, expense and liabilities which might be incurred thereby. We and certain of our subsidiaries maintain deposit accounts and conduct other banking transactions with The Bank of New York Mellon in the ordinary course of our business. The Bank of New York Mellon is also the book-entry depositary and paying agent with respect to our debt securities. The Bank of New York Mellon is the depositary with respect to the ADSs representing certain of our preference shares.

Consent to Service of Process

We irrevocably designate CT Corporation System as our authorized agent for service of process in any legal action or proceeding arising out of or relating to the indentures or any debt securities brought in any federal or state court in The City of New York, New York and we irrevocably submit to the jurisdiction of those courts.

DESCRIPTION OF CONTINGENT CONVERTIBLE SECURITIES

The following is a summary of the general terms that will apply to any contingent convertible securities that may be offered by us.

Each time that we issue contingent convertible securities, we will file a prospectus supplement with the SEC, which you should read carefully. The prospectus supplement will summarize specific terms of your security and may contain additional terms of those contingent convertible securities to those described in this prospectus or terms that differ from those described in this prospectus. The terms presented here, together with the terms contained in the prospectus supplement, will be a description of the material terms of the contingent convertible securities, but if there is any inconsistency between the terms presented here and those in the prospectus supplement, those in the prospectus supplement will apply and will replace those presented here. Therefore, the statements we make below in this section may not apply to your contingent convertible security. Contingent convertible securities will be issued by us under an indenture. The indenture is a contract between us and The Bank of New York Mellon, as trustee. The indenture does not limit our ability to incur additional indebtedness, including the issuance of further contingent convertible securities. You should also read the indenture and any related supplemental indenture establishing such contingent convertible securities, which we have filed with the SEC as an exhibit to the registration statement of which this prospectus is a part.

General

Contingent convertible securities means our subordinated convertible debt securities mandatorily convertible into our ordinary shares on the occurrence of certain events. The contingent convertible securities are not deposits and are not insured or guaranteed by the U.S. Federal Deposit Insurance Corporation or any other government agency of the United States or the United Kingdom.

We may issue contingent convertible securities in one or more series. The relevant prospectus supplement for any particular series of contingent convertible securities will describe the terms of the offered contingent convertible securities, including some or all of the following terms:

- the specific designation, authorized denomination and aggregate principal amount of the contingent convertible securities;

- whether such contingent convertible securities will be dated contingent convertible securities with a specified maturity date or undated contingent convertible securities with no specified maturity date;
- the annual interest rate or rates, or how to calculate the interest rate or rates;
- the date or dates from which interest, if any, will accrue or the method, if any, by which such date or dates will be determined;
- whether the payment of interest can be deferred or cancelled, whether the payment of principal can be deferred and the subordination terms;
- the price or prices at which they will be issued;
- the terms on which the contingent convertible securities may or are required to convert into ordinary shares of NatWest Group plc and any specific terms relating to the conversion or exchange feature, including upon the occurrence of certain events relating to our financial condition;
- whether payments are subject to certain conditions that relate to our financial condition, including our capital ratios;
- the times and places at which any interest payments are payable;
- the terms and conditions of any mandatory or optional redemption, including the amount of any premium;
- any modifications or additions to the events of default with respect to the contingent convertible securities offered;
- the terms and conditions, if any, under which we may elect to substitute or vary the terms of the contingent convertible securities;
- the currency or currencies in which they are denominated and in which we will make any payments;
- any index used to determine the amount of any payments on the contingent convertible securities;
- any restrictions that apply to the offer, sale and delivery of the contingent convertible securities;
- whether and under what circumstances, if other than those described in this prospectus, we will pay additional amounts on the contingent convertible securities following certain developments with respect to withholding tax or information reporting laws and whether, and on what terms, if other than those described in this prospectus, we may redeem the contingent convertible securities following those developments; and
- any listing on a securities exchange.

In addition, the prospectus supplement will describe the material U.S. federal and U.K. tax considerations that apply to any particular series of contingent convertible securities.

Contingent convertible securities may bear interest at a fixed rate, a floating rate or a combination thereof. We may sell any contingent convertible securities that bear no interest, or that bear interest at a rate that at the time of issuance is below the prevailing market rate, at a discount to their stated principal amount.

Holders of contingent convertible securities shall have no voting rights except those described under the heading "–Modification and Waiver" below, unless and until such contingent convertible securities are converted

into our ordinary shares, in which case holders will have the voting rights described under "Description of Ordinary Shares–Share Capital–Voting Rights".

If we issue subordinated contingent convertible securities that qualify as Additional Tier 1 or Tier 2 capital or other capital for regulatory purposes, the payment, subordination, redemption, events of default and other terms may vary from those described in this prospectus and will be set forth in the relevant prospectus supplement.

Payments

We will make any payments of interest and principal, on any particular series of contingent convertible securities on the dates and, in the case of payments of interest, at the rate or rates, that we set out in, or that are determined by the method of calculation described in, the relevant prospectus supplement. The relevant prospectus supplement may provide that we are not obligated to make payments of principal or interest on any scheduled payment date, that interest payments may be cancelled or deemed cancelled, in whole or in part, and that any such cancellation or deemed cancellation will not create a default or an event of default under the contingent convertible securities indenture.

Subordination

Each contingent convertible security will constitute our direct, unsecured and subordinated obligations, ranking equally without any preference among themselves. The rights and claims of the holders of any series of contingent convertible securities will be subordinated as described in the relevant prospectus supplement with respect to such series. The relevant prospectus supplement will set forth the nature of the subordinated ranking of each series of contingent convertible securities relative to the debt and equity issued by us, including to what extent the contingent convertible securities may rank junior in right of payment to our other obligations or in any other manner.

Redemption

Any terms of the redemption of any series of contingent convertible securities, whether at our option or upon the occurrence of certain events (including, but not be limited to, the occurrence of certain tax or regulatory events), will be set forth in the relevant prospectus supplement.

Events of Default; Limitation of Remedies

Events of Default

The relevant prospectus supplement with respect to any series of contingent convertible securities shall set out what events, if any, shall be considered Events of Defaults and what remedies, if any, that may be available to holders. The indenture permits the issuance of contingent convertible securities in one or more series and whether an Event of Default, if applicable, has occurred is determined on a series-by-series basis.

If an Event of Default provided for in a supplemental indenture for any series of contingent convertible securities, occurs and is continuing, the trustee or the holders of at least 25% in aggregate principal amount of the outstanding contingent convertible securities of each series may declare the principal amount, together with accrued interest (if any) and Additional Amounts (if any), payable on such contingent convertible securities, of all the contingent convertible securities of that series to be due and payable immediately, by a notice in writing to us, and upon such declaration such amount shall become immediately due and payable. However, after this declaration but before the trustee obtains a judgment or decree for payment of money due, the holder or holders of a majority in aggregate principal amount of the outstanding contingent convertible securities of the series may rescind the declaration of acceleration and its consequences, but only if all Events of Default have been remedied or waived and all payments due, other than those due as a result of acceleration, have been made.

Unless the relevant prospectus supplement provides otherwise, by accepting a contingent convertible security, each holder and the trustee (acting on behalf of the holders) will be deemed to have waived any right of set-off, counterclaim or combination of accounts with respect to the contingent convertible security or the indenture (or between our obligations under or in respect of any contingent convertible security and any liability owed by a holder to us) that they (or the trustee acting on their behalf) might otherwise have against us, whether before or during our winding-up.

Events of Default - General

The holder or holders of not less than a majority in aggregate principal amount of the outstanding contingent convertible securities of any series may waive any past Event of Default with respect to the series, except an Event of Default in respect of the payment of interest, if any, or principal of (or premium, if any) or payments on any contingent convertible security or a covenant or provision of the indenture which cannot be modified or amended without the consent of the holder of each contingent convertible securities of such series.

Upon any such waiver, such Event of Default will cease to exist, and any such Event of Default with respect to any series arising therefrom will be deemed to have been cured and not to have occurred; provided that no such waiver will extend to any subsequent or other Event of Default or impair any right consequent thereon.

Subject to the indenture provisions for the indemnification of the trustee and the provisions of any supplemental indenture establishing any series of contingent convertible securities, the holder or holders of a majority in aggregate principal amount of the outstanding contingent convertible securities of any series shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred on the trustee with respect to the series, if the direction is not in conflict with any rule of law or with the indenture and the trustee does not determine that the action would be unjustly prejudicial to the holder or holders of any contingent convertible securities of any series not taking part in that direction. The trustee may take any other action that it deems proper which is not inconsistent with that direction.

The indenture provides that the trustee will, within 90 days after the occurrence of an Event of Default with respect to the contingent convertible securities of any series, give to each holder of the contingent convertible securities of the affected series notice of the Event of Default known to it, unless the Event of Default has been cured or waived. However, the trustee shall be protected in withholding notice if it determines in good faith that withholding notice is in the interest of the holders.

We are required to furnish to the trustee annually a statement as to our compliance with all conditions and covenants under the indenture.

Additional Amounts

Unless otherwise specified in the relevant prospectus supplement, all amounts of principal, premium, if any, and interest, if any, on any series of contingent convertible securities will be paid by us without deduction or withholding for, or on account of, any and all present and future income, stamp and other taxes, levies, imposts, duties, charges, fees, deductions or withholdings now or hereafter imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom or any political subdivision or any authority thereof or therein having the power to tax (the "U.K. Taxing Jurisdiction"), unless such deduction or withholding is required by law.

Unless otherwise specified in the relevant prospectus supplement, if deduction or withholding of any such taxes, levies, imposts, duties, charges, fees, deductions or withholdings shall at any time be required by the U.K. Taxing Jurisdiction, we will pay such additional amounts in respect of, payments of the principal amount of, premium, if any, and interest, if any, on any series of contingent convertible securities ("Additional Amounts") as may be necessary in order that the net amounts paid to the holders of the contingent convertible securities, after such deduction or withholding, shall equal the respective amounts of principal, premium, if any, and interest, if any, which would have been payable in respect of such contingent convertible securities had no such deduction or

withholding been required; provided, however, that the foregoing will not apply to any such tax, levy, impost, duty, charge, fee, deduction or withholding that would not have been payable or due but for the fact that:

(i) the holder or the beneficial owner of the contingent convertible security is a domiciliary, national or resident of, or engaging in business or maintaining a permanent establishment or physically present in, the U.K. Taxing Jurisdiction or otherwise has some connection with the U.K. Taxing Jurisdiction other than the mere holding or ownership of a contingent convertible security, or the collection of any payment of (or in respect of) principal of, premium, if any, or interest, if any, on any contingent convertible security of the relevant series,

(ii) except in the case of a winding-up of us in the United Kingdom, the relevant contingent convertible security is presented (where presentation is required) for payment in the United Kingdom,

(iii) the relevant contingent convertible security is presented (where presentation is required) for payment more than 30 days after the date payment became due or was provided for, whichever is later, except to the extent that the holder would have been entitled to such Additional Amount on presenting (where presentation is required) the contingent convertible security for payment at the close of such 30 day period,

(iv) the holder or the beneficial owner of the relevant contingent convertible security or the beneficial owner of any payment of (or in respect of) principal of, premium, if any, or interest, if any, on such contingent convertible security failed to comply with a request by us or our liquidator or other authorized person addressed to the holder (x) to provide information concerning the nationality, residence or identity of the holder or such beneficial owner or (y) to make any declaration or other similar claim, which in the case of (x) or (y), is required or imposed by a statute, treaty, regulation or administrative practice of the U.K. Taxing Jurisdiction as a precondition to exemption or relief from all or part of such deduction or withholding,

(v) the withholding or deduction is required to be made pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code, any agreement with the U.S. Treasury entered into with respect thereto, any U.S. Treasury regulation issued thereunder or any other official interpretations or guidance issued with respect thereto; any intergovernmental agreement entered into with respect thereto, or any law, regulation, or other official interpretation or guidance promulgated pursuant to such an intergovernmental agreement, or

(vi) any combination of subclauses (i) through (v) above,

nor shall Additional Amounts be paid with respect to a payment of principal of, premium, if any, or interest, if any, on the contingent convertible security to any holder who is a fiduciary or partnership or person other than the sole beneficial owner of such payment to the extent such payment would be required by the laws of the U.K. Taxing Jurisdiction to be included in the income for tax purposes of a beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner who would not have been entitled to such Additional Amounts, had it been the holder.

Whenever in this prospectus or any prospectus supplement there is mentioned, in any context, the payment of the principal of, premium, if any, or interest, if any, and any other payments on, or in respect of, any contingent convertible security of any series such mention shall be deemed to include mention of the payment of Additional Amounts provided for in this "Additional Amounts" section to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof pursuant to the provisions of this section and as if express mention of the payment of Additional Amounts (if applicable) were made in any provisions hereof where such express mention is not made.

Limitation on Suits

No holder of contingent convertible securities will be entitled to proceed directly against us, except as described below.

Subject to any further limitations provided in the relevant prospectus supplement and supplemental indenture establishing any series of contingent convertible securities, before a holder of the contingent convertible securities may bypass the trustee and bring its own lawsuit or other formal legal action or take other steps to enforce its rights or protect its interests relating to the contingent convertible securities, the following must occur:

- The holder must give the trustee written notice that a continuing Event of Default has occurred and remains uncured.
- The holders of not less than 25% in outstanding principal amount of the contingent convertible securities of the relevant series must make a written request that the trustee institute proceedings because of the Event of Default, and the holder must offer indemnity satisfactory to the trustee in its sole discretion against the cost and other liabilities incurred in connection with such request.
- The trustee must not have taken action for 60 days after receipt of the above notice and offer of security or indemnity, and the trustee must not have received an inconsistent direction from the majority in principal amount of all outstanding contingent convertible securities of the relevant series during that period.

Notwithstanding any other provision of the contingent convertible indenture or the contingent convertible securities, the right of any holder of contingent convertible securities to receive payment of the principal of (and premium, if any, on), and interest on, the contingent convertible securities, on or after the due dates thereof or to institute suit for the enforcement of any such payment on or after such respective dates, will not be impaired or affected without the consent of such holder.

Modification and Waiver

We and the trustee may make certain modifications and amendments to the applicable indenture with respect to any series of contingent convertible securities without the consent of the holders of such contingent convertible securities. Other modifications and amendments may be made to the applicable indenture with the consent of not less than a majority in aggregate outstanding principal amount of the contingent convertible securities of the series outstanding under the indenture that are affected by the modification or amendment, voting as one class. However, no modifications or amendments may be made without the consent of the holder of each contingent convertible security affected that would:

- change the stated maturity, if any, of any principal amount of any contingent convertible security;
- change the terms of any contingent convertible security to include a stated maturity date;
- reduce the principal amount of, the interest rates of, or the payments with respect to any contingent convertible security, other than as permitted under the applicable indenture;
- change our (or any successor's) obligation to pay Additional Amounts;
- change the currency of payment;
- reduce the percentage in aggregate principal amount of outstanding contingent convertible securities of the series necessary to modify or amend the applicable indenture or to waive compliance with certain provisions of the applicable indenture;
- impair the right to institute suit for the enforcement of any payment due and payable;
- modify the subordination provisions or the terms of our obligations in respect of the payment of amounts due and payable on the contingent convertible securities in a manner adverse to the holders, in each case other than as permitted under the applicable indenture; or

- modify the above requirements.

In addition to the permitted amendments described in the preceding paragraph, we and the trustee may amend or supplement the applicable indenture or the contingent convertible securities without the consent of any holders of the contingent convertible securities to conform the provisions of the applicable indenture to this "*Description of Contingent Convertible Securities*" section in this prospectus.

In addition, unless the relevant prospectus supplement provides otherwise, any variations in the terms and conditions of the contingent convertible securities of any series, including modifications relating to the subordination or redemption provisions of such contingent convertible securities, can only be made in accordance with the rules and requirements of the PRA, as and to the extent applicable from time to time.

Consolidation, Merger and Sale of Assets; Assumption

We may, without the consent of the holders of any of the contingent convertible securities, consolidate with, merge into or transfer or lease our assets substantially as an entirety to any person, provided that any successor corporation formed by any consolidation or amalgamation, or any transferee or lessee of our assets, is a company organized under the laws of any part of the United Kingdom that assumes, by a supplemental indenture, our obligations on the contingent convertible securities and under the applicable indenture, and we procure the delivery of a customary officer's certificate and legal opinion providing that the conditions precedent to the transaction have been complied with.

Subject to applicable law and regulation (including, if and to the extent required at such time by the applicable regulatory capital rules, regulations or standards, the prior consent of the PRA), a holding company of us or any of our wholly-owned subsidiaries may assume our obligations under the contingent convertible securities of any series without the consent of any holder, provided that certain conditions are satisfied. If the conditions set out in the contingent convertible securities indenture are satisfied, all of our direct payment obligations under the contingent convertible securities of the series and the applicable indenture shall immediately be discharged. Any Additional Amounts under the contingent convertible securities of the series will be payable in respect of taxes imposed by the jurisdiction in which the assuming holding company or wholly-owned subsidiary is organized or tax resident, subject to exceptions equivalent to those that apply to any obligation to pay Additional Amounts in respect of taxes imposed by the U.K. Taxing Jurisdiction, rather than taxes imposed by the U.K. Taxing Jurisdiction. The holding company or wholly-owned subsidiary, as the case may be, that assumes our obligations will also be entitled to redeem the contingent convertible securities of the relevant series in the circumstances described in "–Redemption" above or in the supplemental indenture with respect to the particular series of contingent convertible securities.

An assumption of our obligations under the contingent convertible securities of any series might be deemed for U.S. federal income tax purposes to be an exchange of those contingent convertibles securities for new contingent convertible securities by each beneficial owner, resulting in a recognition of taxable gain or loss for U.S. federal income tax purposes and possibly certain other adverse tax consequences. You should consult your tax advisor regarding the U.S. federal, state and local income tax consequences of an assumption.

Governing Law

The contingent convertible securities and the indenture will be governed by and construed in accordance with the laws of the State of New York and the Trust Indenture Act, except that, as the indenture specifies, the subordination provisions and the waiver of the right to set-off by the holders and by the Trustee acting on behalf of the holders of each series of contingent convertible securities will be governed by and construed in accordance with the laws of Scotland.

Notices

All notices to holders of registered contingent convertible securities shall be validly given if in writing and mailed, first-class postage prepaid, to them at their respective addresses in the register maintained by the trustee.

The Trustee

The Bank of New York Mellon, acting through its London Branch, One Canada Square, London E14 5AL, is the trustee under the indenture with respect to the contingent convertible securities. The trustee shall have and be subject to all the duties and responsibilities specified with respect to an indenture trustee under the Trust Indenture Act of 1939 ("TIA"). Subject to the provisions of the TIA, the trustee is under no obligation to exercise any of the powers vested in it by the indenture at the request of any holder of contingent convertible securities, unless offered reasonable indemnity by the holder against the costs, expense and liabilities which might be incurred thereby. We and certain of our subsidiaries maintain deposit accounts and conduct other banking transactions with The Bank of New York Mellon in the ordinary course of our business. The Bank of New York Mellon is also the book-entry depositary and paying agent with respect to our contingent convertible securities. The Bank of New York Mellon is the depositary with respect to the American Depositary Shares representing certain of our preference shares and our ordinary shares.

Consent to Service of Process

Under the indenture, we irrevocably designate CT Corporation System as our authorized agent for service of process in any legal action or proceeding arising out of or relating to the indentures or any contingent convertible securities brought in any federal or state court in The City of New York, New York and we irrevocably submit to the jurisdiction of those courts.

DESCRIPTION OF CERTAIN PROVISIONS RELATING TO DEBT SECURITIES AND CONTINGENT CONVERTIBLE SECURITIES

Agreement with Respect to the Exercise of U.K. Bail-in Power

The senior debt securities indenture contains, and NatWest Group plc expects that any supplemental indenture to the senior debt securities indenture, subordinated debt securities indenture and contingent convertible securities indenture, as required, will contain, in respect of the securities governed thereby, certain provisions substantially to the following effect. In addition, such provisions will be more fully set out in the relevant supplemental indenture and summarized in the relevant prospectus supplement.

The securities may be subject to the exercise of the U.K. bail-in power by the relevant U.K. resolution authority. As more fully set out in the relevant prospectus supplement, if the U.K. bail-in power applies to the securities of a series, by its acquisition of the securities, each holder of such securities will be bound by (a) the effect of the exercise of any U.K. bail-in power by the relevant U.K. resolution authority and (b) the variation of the terms of securities or the relevant indenture, if necessary, to give effect to the exercise of any U.K. bail-in power by the relevant U.K. resolution authority.

The exercise of any U.K. bail-in power by the relevant U.K. resolution authority shall not constitute a default or an Event of Default under the terms of the securities or the indentures.

For these purposes, a "UK bail-in power" is any write-down, conversion, transfer, modification or suspension power existing from time to time under any laws, regulations, rules or requirements relating to the resolution of banks, banking group companies, credit institutions and/or investment firms incorporated in the United Kingdom in effect and applicable in the United Kingdom to NatWest Group plc or other members of the NatWest Group, including but not limited to any such laws, regulations, rules or requirements which are implemented, adopted or enacted within the context of the UK resolution regime under the Banking Act 2009, as the same has been or may be amended from time to time (whether pursuant to the UK Financial Services (Banking Reform) Act 2013 (the "Banking Reform Act 2013"), secondary legislation or otherwise, the "Banking Act"), pursuant to which any

obligations of a bank, banking group company, credit institution or investment firm or any of its affiliates can be reduced, cancelled, modified, transferred and/or converted into shares or other securities or obligations of the obligor or any other person (or suspended for a temporary period) or pursuant to which any right in a contract governing such obligations may be deemed to have been exercised.

A reference to the "relevant UK authority" is to any authority with the ability to exercise a UK bail-in power.

Form of Debt Securities and Contingent Convertible Securities; Book-Entry System

Unless the relevant prospectus supplement states otherwise, the debt securities and contingent convertible securities shall initially be represented by one or more global securities in registered form, without coupons attached, and will be deposited with or on behalf of one or more depositary identified in the applicable prospectus supplement, including, without limitation, The Depository Trust Company ("DTC"), Euroclear Bank SA/NV ("Euroclear Bank"), as operator of the Euroclear System ("Euroclear") and/or Clearstream Banking, S.A. ("Clearstream Luxembourg"), and will be registered in the name of such depositary or its nominee. Unless and until the debt securities or contingent convertible securities, as applicable, are exchanged in whole or in part for other securities that we issue or the global securities are exchanged for definitive securities, the global securities may not be transferred except as a whole by the depositary to a nominee or a successor of the depositary.

Special procedures to facilitate clearance and settlement have been established among these clearing systems to trade securities across borders in the secondary market. Where payments for securities we issue in global form will be made in U.S. dollars, these procedures can be used for cross-market transfers and the securities will be cleared and settled on a delivery against payment basis. Cross-market transfers of securities that are not in global form may be cleared and settled in accordance with other procedures that may be established among the clearing systems for these securities.

The debt securities and contingent convertible securities may be accepted for clearance by DTC, Euroclear and Clearstream Luxembourg.

The laws of some states may require that certain investors in securities take physical delivery of their securities in definitive form. Those laws may impair the ability of investors to own interests in book-entry securities.

Neither we nor the trustee nor any of our or its agents has any responsibility for any aspect of the actions of DTC, Clearstream Luxembourg or Euroclear or any of their direct or indirect participants. Neither we nor the trustee nor any of our or its agents has any responsibility for any aspect of the records kept by DTC, Clearstream Luxembourg or Euroclear or any of their direct or indirect participants. Neither we nor the trustee nor any of our or its agents supervise these systems in any way. This is also true for any other clearing system indicated in a prospectus supplement.

DTC, Clearstream Luxembourg, Euroclear and their participants perform these clearance and settlement functions under agreements they have made with one another or with their customers. Investors should be aware that DTC, Clearstream Luxembourg, Euroclear and their participants are not obligated to perform these procedures and may modify them or discontinue them at any time.

The description of the clearing systems in this section reflects our understanding of the rules and procedures of DTC, Clearstream Luxembourg and Euroclear as they are currently in effect. Those systems could change their rules and procedures at any time.

So long as the depositary, or its nominee, is the holder of a global security, the depositary or its nominee will be considered the sole holder of such global security for all purposes under the indentures. Except as described below under the heading "–Issuance of Definitive Securities", no participant, indirect participant or other person will be entitled to have debt securities or contingent convertible securities, as applicable, registered in its name, receive or be entitled to receive physical delivery of debt securities or contingent convertible securities, as applicable, in

definitive form or be considered the owner or holder of the debt securities or contingent convertible securities, as applicable, under the indentures. Each person having an ownership or other interest in debt securities or contingent convertible securities, as applicable, must rely on the procedures of the depositary, and, if a person is not a participant in the depositary, must rely on the procedures of the participant or other securities intermediary through which that person owns its interest to exercise any rights and obligations of a holder under the indentures, the debt securities or the contingent convertible securities, as applicable.

The Clearing Systems

DTC, Euroclear and Clearstream Luxembourg have advised us as follows:

DTC. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities deposited with it by its participants and facilitates the settlement of transactions among its participants in such securities through electronic computerized book-entry changes in accounts of the participants, thereby eliminating the need for physical movement of securities certificates. Direct participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly. The DTC rules applicable to its participants are on file with the SEC.

Euroclear. Euroclear holds securities for its participants and clears and settles transactions between its participants through simultaneous electronic book-entry delivery against payment, thus eliminating the need for physical movement of certificates. Euroclear provides various other services, including safekeeping, administration, clearance and settlement and securities lending and borrowing, and interfaces with domestic markets in several countries. Euroclear is operated by Euroclear Bank, under contract with Euroclear plc, a U.K. corporation. Euroclear Bank conducts all operations, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with Euroclear Bank, not Euroclear plc. Euroclear plc establishes policy for Euroclear on behalf of Euroclear participants. Euroclear participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include any underwriters for the debt securities or contingent convertible securities, as applicable. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly. Euroclear is an indirect participant in DTC. Securities clearance accounts and cash accounts with Euroclear are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System (collectively, the "Euroclear Terms and Conditions") and applicable law. The Euroclear Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear.

Clearstream Luxembourg. Clearstream Luxembourg is incorporated under the laws of The Grand Duchy of Luxembourg as a société anonyme and is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector (*Commission de Surveillance du Secteur Financier*). Clearstream Luxembourg is owned by Deutsche Börse AG, a publicly traded company. Clearstream Luxembourg holds securities for its participants and facilitates the clearance and settlement of securities transactions among its participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Clearstream Luxembourg provides other services to its participants, including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream Luxembourg interfaces with domestic markets in several countries. Clearstream Luxembourg's customers include worldwide securities brokers and dealers, banks, trust companies and clearing corporations and may include professional

financial intermediaries. Its U.S. customers are limited to securities brokers, dealers and banks. Indirect access to the Clearstream Luxembourg system is also available to others that clear through Clearstream Luxembourg customers or that have custodial relationships with its customers, such as banks, brokers, dealers and trust companies. Clearstream Luxembourg is an indirect participant in DTC. Clearstream Luxembourg has established an electronic bridge with Euroclear to facilitate settlement of trades between Clearstream Luxembourg and Euroclear. Distributions with respect to the securities held beneficially through Clearstream Luxembourg are credited to cash accounts of Clearstream Luxembourg customers in accordance with its rules and procedures, to the extent received by Clearstream Luxembourg.

Other Clearing Systems. We may choose any other clearing system for a particular series of securities. The clearance and settlement procedures for the clearing system we choose will be described in the applicable prospectus supplement.

Payments on the Global Security

Payments of any amounts in respect of any global securities will be made by the trustee to the depositary. Payments will be made to beneficial owners of debt securities or contingent convertible securities, as applicable, in accordance with the rules and procedures of the depositary or its direct and indirect participants, as applicable. Neither we nor the trustee nor any of our agents will have any responsibility or liability for any aspect of the records of any securities intermediary in the chain of intermediaries between the depositary and any beneficial owner of an interest in a global security, or the failure of the depositary or any intermediary to pass through to any beneficial owner any payments that we make to the depositary.

Primary Distribution

The distribution of debt securities and contingent convertible securities will be cleared through one or more of the clearing systems that we have described above or any other clearing system that is specified in the applicable prospectus supplement. Payment for debt securities and contingent convertible securities will be made on a delivery versus payment or free delivery basis. These payment procedures will be more fully described in the applicable prospectus supplement.

Clearance and settlement procedures may vary from one series of debt securities and contingent convertible securities, as applicable, to another according to the currency that is chosen for the specific series of debt securities or contingent convertible securities. Customary clearance and settlement procedures are described below.

We will submit applications to the relevant system or systems for the debt securities and contingent convertible securities to be accepted for clearance. The clearance numbers that are applicable to each clearance system will be specified in the applicable prospectus supplement.

Clearance and Settlement Procedures - DTC

DTC participants that hold debt securities or contingent convertible securities, as applicable, through DTC on behalf of investors will follow the settlement practices applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement System.

Debt securities and contingent convertible securities, as applicable, will be credited to the securities custody accounts of these DTC participants against payment in same-day funds, for payments in U.S. dollars, on the settlement date. For payments in a currency other than U.S. dollars, debt securities or contingent convertible securities, as applicable, will be credited free of payment on the settlement date.

Clearance and Settlement Procedures - Euroclear and Clearstream Luxembourg

We understand that investors that hold debt securities or contingent convertible securities, as applicable, through Euroclear or Clearstream Luxembourg accounts will follow the settlement procedures that are applicable to conventional Eurobonds in registered form for securities.

Debt securities or contingent convertible securities, as applicable, will be credited to the securities custody accounts of Euroclear and Clearstream Luxembourg participants on the business day following the settlement date, for value on the settlement date. They will be credited either free of payment or against payment for value on the settlement date.

Secondary Market Trading

Trading Between DTC Participants

Secondary market trading between DTC participants will occur in the ordinary way in accordance with DTC's rules. Secondary market trading will be settled using procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement System for securities.

If payment is made in U.S. dollars, settlement will be in same-day funds. If payment is made in a currency other than U.S. dollars, settlement will be free of payment. If payment is made other than in U.S. dollars, separate payment arrangements outside of the DTC system must be made between the DTC participants involved.

Trading Between Euroclear and/or Clearstream Luxembourg Participants

We understand that secondary market trading between Euroclear and/or Clearstream Luxembourg participants will occur in the ordinary way following the applicable rules and operating procedures of Euroclear and Clearstream Luxembourg. Secondary market trading will be settled using procedures applicable to conventional Eurobonds in registered form for securities.

Trading Between a DTC Seller and a Euroclear or Clearstream Luxembourg Purchaser

A purchaser of debt securities or contingent convertible securities, as applicable, that are held in the account of a DTC participant must send instructions to Euroclear or Clearstream Luxembourg at least one business day prior to settlement. The instructions will provide for the transfer of the debt securities or contingent convertible securities, as applicable, from the selling DTC participant's account to the account of the purchasing Euroclear or Clearstream Luxembourg participant. Euroclear or Clearstream Luxembourg, as the case may be, will then instruct the common depositary for Euroclear and Clearstream Luxembourg to receive the debt securities or contingent convertible securities, as applicable, either against payment or free of payment.

The interests in the debt securities or contingent convertible securities, as applicable, will be credited to the respective clearing system. The clearing system will then credit the account of the participant, following its usual procedures. Credit for the debt securities or contingent convertible securities, as applicable, will appear on the next day, European time. Cash debit will be back-valued to, and the interest on the debt securities or contingent convertible securities, as applicable, will accrue from, the value date, which would be the preceding day, when settlement occurs in New York. If the trade fails and settlement is not completed on the intended date, the Euroclear or Clearstream Luxembourg cash debit will be valued as of the actual settlement date instead.

Euroclear participants or Clearstream Luxembourg participants will need the funds necessary to process same-day funds settlement. The most direct means of doing this is to pre-position funds for settlement, either from cash or from existing lines of credit, as for any settlement occurring within Euroclear or Clearstream Luxembourg. Under this approach, participants may take on credit exposure to Euroclear or Clearstream Luxembourg until the debt securities or contingent convertible securities, as applicable, are credited to their accounts one business day later.

As an alternative, if Euroclear or Clearstream Luxembourg has extended a line of credit to them, participants can choose not to pre-position funds and will instead allow that credit line to be drawn upon to finance settlement. Under this procedure, Euroclear participants or Clearstream Luxembourg participants purchasing debt securities or contingent convertible securities, as applicable, would incur overdraft charges for one business day (assuming they cleared the overdraft as soon as the securities were credited to their accounts). However, any interest on the debt securities or contingent convertible securities, as applicable, would accrue from the value date. Therefore, in many cases, the investment income on debt securities or contingent convertible securities, as applicable, that is earned during that one-business day period may substantially reduce or offset the amount of the overdraft charges. This result will, however, depend on each participant's particular cost of funds.

Because the settlement will take place during New York business hours, DTC participants will use their usual procedures to deliver debt securities or contingent convertible securities, as applicable, to the depositary on behalf of Euroclear participants or Clearstream Luxembourg participants. The sale proceeds will be available to the DTC seller on the settlement date. For the DTC participants, then, a cross-market transaction will settle no differently than a trade between two DTC participants.

Special Timing Considerations

Investors should be aware that they will only be able to make and receive deliveries, payments and other communications involving the debt securities or contingent convertible securities, as applicable, through Clearstream Luxembourg and Euroclear on days when those systems are open for business. Those systems may not be open for business on days when banks, brokers and other institutions are open for business in the United States.

In addition, because of time-zone differences, there may be problems with completing transactions involving Clearstream Luxembourg and Euroclear on the same business day as in the United States. U.S. investors who wish to transfer their interests in the debt securities or contingent convertible securities, as applicable, or to receive or make a payment or delivery of the debt securities or contingent convertible securities, as applicable, on a particular day, may find that the transactions will not be performed until the next business day in Luxembourg or Brussels, depending on whether Clearstream Luxembourg or Euroclear is used.

Issuance of Definitive Securities

So long as the depositary holds the global securities of a particular series of debt securities or contingent convertible securities, as applicable, such global securities will not be exchangeable for definitive securities of that series unless:

- the depositary notifies the trustee that it is unwilling or unable to continue to act as depositary for the debt securities or contingent convertible securities, as applicable, or the depositary ceases to be a clearing agency registered under the Exchange Act;
- we are wound up and we fail to make a payment on the debt securities or contingent convertible securities, as applicable, when due; or
- at any time we determine at our option and in our sole discretion that the global securities of a particular series of debt securities or contingent convertible securities should be exchanged for definitive debt securities or contingent convertible securities, as applicable, of that series in registered form.

Each person having an ownership or other interest in a debt security or contingent convertible security, as applicable, must rely exclusively on the rules or procedures of the depositary as the case may be, and any agreement with any direct or indirect participant of the depositary, including Euroclear or Clearstream Luxembourg and their participants, as applicable, or any other securities intermediary through which that person holds its interest, to receive or direct the delivery of possession of any definitive security. The indentures permit us to determine at any time and in our sole discretion that debt securities or contingent convertible securities, as applicable, shall no longer

be represented by global securities. DTC has advised us that, under its current practices, it would notify its participants of our request, but will only withdraw beneficial interests from the global securities at the request of each DTC participant. We would issue definitive certificates in exchange for any such beneficial interests withdrawn.

Unless otherwise specified in the relevant prospectus supplement, definitive debt securities and definitive contingent convertible securities will be issued in registered form only. To the extent permitted by law, we, the trustee and any paying agent shall be entitled to treat the person in whose name any definitive security is registered as its absolute owner.

Payments in respect of each series of definitive securities and definitive contingent convertible securities will be made to the person in whose name such definitive securities are registered as it appears in the register for that series of debt securities or contingent convertible securities, as applicable. Payments will be made in respect of the debt securities or contingent convertible securities, as applicable, by check drawn on a bank in New York or, if the holder requests, by transfer to the holder's account in New York. Definitive securities should be presented to the paying agent for redemption.

If we issue definitive debt securities or contingent convertible securities, as applicable, of a particular series in exchange for a particular global security, the depositary, as holder of that global security, will surrender it against receipt of the definitive debt securities or contingent convertible securities, as applicable, cancel the book-entry debt securities or contingent convertible securities, as applicable, of that series, and distribute the definitive debt securities or contingent convertible securities, as applicable, of that series to the persons and in the amounts that the depositary specifies pursuant to the internal procedures of such depositary.

If definitive securities are issued in the limited circumstances described above, those securities may be transferred in whole or in part in denominations of any whole number of securities upon surrender of the definitive securities certificates together with the form of transfer endorsed on it, duly completed and executed at the specified office of a paying agent. If only part of a securities certificate is transferred, a new securities certificate representing the balance not transferred will be issued to the transferor within three business days after the paying agent receives the certificate. The new certificate representing the balance will be delivered to the transferor by uninsured post at the risk of the transferor, to the address of the transferor appearing in the records of the paying agent. The new certificate representing the securities that were transferred will be sent to the transferee within three business days after the paying agent receives the certificate transferred, by uninsured post at the risk of the holder entitled to the securities represented by the certificate, to the address specified in the form of transfer.

TIER 1 SECURITIES

A. Dollar Perpetual Regulatory Tier 1 Securities

Base Prospectus:

Please refer to pages 33-42 of Exhibit 2.5 of the 2019 Annual Report, available at https://www.sec.gov/Archives/edgar/data/844150/000110465920026118/a19-22922_1ex2d5.htm.

Prospectus Supplement:

Please refer to pages 92-105 of Exhibit 2.5 of the 2019 Annual Report, available at https://www.sec.gov/Archives/edgar/data/844150/000110465920026118/a19-22922_1ex2d5.htm.

SUBORDINATED TIER 2 SECURITIES

A. 6.000% Subordinated Tier 2 Notes due 2023

Base Prospectus:

Please refer to pages 51-62 of Exhibit 2.5 of the 2019 Annual Report, available at https://www.sec.gov/Archives/edgar/data/844150/000110465920026118/a19-22922_1ex2d5.htm.

Prospectus Supplement:

Please refer to pages 112-119 of Exhibit 2.5 of the 2019 Annual Report, available at https://www.sec.gov/Archives/edgar/data/844150/000110465920026118/a19-22922_1ex2d5.htm.

B. 6.100% Subordinated Tier 2 Notes due 2023

Base Prospectus:

Please refer to pages 51-62 of Exhibit 2.5 of the 2019 Annual Report, available at https://www.sec.gov/Archives/edgar/data/844150/000110465920026118/a19-22922_1ex2d5.htm.

Prospectus Supplement:

Please refer to pages 120-127 of Exhibit 2.5 of the 2019 Annual Report, available at https://www.sec.gov/Archives/edgar/data/844150/000110465920026118/a19-22922_1ex2d5.htm.

C. 5.125% Subordinated Tier 2 Notes due 2024

Base Prospectus:

Please refer to pages 51-62 of Exhibit 2.5 of the 2019 Annual Report, available at https://www.sec.gov/Archives/edgar/data/844150/000110465920026118/a19-22922_1ex2d5.htm.

Prospectus Supplement:

Please refer to pages 128-136 of Exhibit 2.5 of the 2019 Annual Report, available at https://www.sec.gov/Archives/edgar/data/844150/000110465920026118/a19-22922_1ex2d5.htm.

D. 3.754% Subordinated Tier 2 Notes due 2029

Base Prospectus:

Please refer to pages 78-91 of Exhibit 2.5 of the 2019 Annual Report, available at https://www.sec.gov/Archives/edgar/data/844150/000110465920026118/a19-22922_1ex2d5.htm.

Prospectus Supplement:

Please refer to pages 137-147 of Exhibit 2.5 of the 2019 Annual Report, available at https://www.sec.gov/Archives/edgar/data/844150/000110465920026118/a19-22922_1ex2d5.htm.

E. Fixed-to-Fixed Reset Rate Subordinated Tier 2 Notes due 2035

Base Prospectus:

Please refer to pages 78-91 of Exhibit 2.5 of the 2019 Annual Report, available at https://www.sec.gov/Archives/edgar/data/844150/000110465920026118/a19-22922_1ex2d5.htm.

Prospectus Supplement:

Please refer to pages 26-38 of Exhibit 2.4 of the 2020 Annual Report, available at https://www.sec.gov/Archives/edgar/data/844150/000110465921032442/a20-38587_8ex2d4.htm

SENIOR NOTES

A. 3.875% Senior Notes due 2023

Base Prospectus:

Please refer to pages 63-77 of Exhibit 2.5 of the 2019 Annual Report, available at https://www.sec.gov/Archives/edgar/data/844150/000110465920026118/a19-22922_1ex2d5.htm.

Prospectus Supplement:

Please refer to pages 155-159 of Exhibit 2.5 of the 2019 Annual Report, available at https://www.sec.gov/Archives/edgar/data/844150/000110465920026118/a19-22922_1ex2d5.htm.

B. 3.498% Fixed Rate / Floating Rate Senior Notes due 2023 and Senior Floating Rate Notes due 2023

Base Prospectus:

Please refer to pages 63-77 of Exhibit 2.5 of the 2019 Annual Report, available at https://www.sec.gov/Archives/edgar/data/844150/000110465920026118/a19-22922_1ex2d5.htm.

Prospectus Supplement:

Please refer to pages 160-169 of Exhibit 2.5 of the 2019 Annual Report, available at https://www.sec.gov/Archives/edgar/data/844150/000110465920026118/a19-22922_1ex2d5.htm.

C. 2.359% Senior Callable Fixed-to-Fixed Reset Rate Green Notes due 2024 and 3.073% Senior Callable Fixed-to-Fixed Reset Rate Notes due 2028

Base Prospectus

Please refer to pages 78-91 of Exhibit 2.5 of the 2019 Annual Report, available at https://www.sec.gov/Archives/edgar/data/844150/000110465920026118/a19-22922_1ex2d5.htm.

Prospectus Supplement:

Please refer to pages 40-50 of Exhibit 2.4 of the 2020 Annual Report, available at https://www.sec.gov/Archives/edgar/data/844150/000110465921032442/a20-38587_8ex2d4.htm

D. 4.519% Fixed Rate / Floating Rate Senior Notes due 2024 and Senior Floating Rate Notes due 2024

Base Prospectus:

Please refer to pages 78-91 of Exhibit 2.5 of the 2019 Annual Report, available at https://www.sec.gov/Archives/edgar/data/844150/000110465920026118/a19-22922_1ex2d5.htm.

Prospectus Supplement:

Please refer to pages 170-182 of Exhibit 2.5 of the 2019 Annual Report, available at https://www.sec.gov/Archives/edgar/data/844150/000110465920026118/a19-22922_1ex2d5.htm.

E. 4.269% Fixed Rate / Floating Rate Senior Notes due 2025

Base Prospectus:

Please refer to pages 78-91 of Exhibit 2.5 of the 2019 Annual Report, available at https://www.sec.gov/Archives/edgar/data/844150/000110465920026118/a19-22922_1ex2d5.htm.

Prospectus Supplement:

Please refer to pages 183-194 of Exhibit 2.5 of the 2019 Annual Report, available at https://www.sec.gov/Archives/edgar/data/844150/000110465920026118/a19-22922_1ex2d5.htm.

F. 4.892% Fixed / Floating Rate Senior Notes due 2029

Base Prospectus:

Please refer to pages 78-91 of Exhibit 2.5 of the 2019 Annual Report, available at https://www.sec.gov/Archives/edgar/data/844150/000110465920026118/a19-22922_1ex2d5.htm.

Prospectus Supplement:

Please refer to pages 195-206 of Exhibit 2.5 of the 2019 Annual Report, available at https://www.sec.gov/Archives/edgar/data/844150/000110465920026118/a19-22922_1ex2d5.htm.

G. 4.445% Fixed / Floating Rate Senior Notes due 2030

Base Prospectus:

Please refer to pages 78-91 of Exhibit 2.5 of the 2019 Annual Report, available at https://www.sec.gov/Archives/edgar/data/844150/000110465920026118/a19-22922_1ex2d5.htm.

Prospectus Supplement:

Please refer to pages 207-218 of Exhibit 2.5 of the 2019 Annual Report, available at https://www.sec.gov/Archives/edgar/data/844150/000110465920026118/a19-22922_1ex2d5.htm.

H. 5.076% Fixed Rate / Floating Rate Senior Notes due 2030

Base Prospectus:

Please refer to pages 78-91 of Exhibit 2.5 of the 2019 Annual Report, available at https://www.sec.gov/Archives/edgar/data/844150/000110465920026118/a19-22922_1ex2d5.htm.

Prospectus Supplement:

Please refer to pages 219-230 of Exhibit 2.5 of the 2019 Annual Report, available at https://www.sec.gov/Archives/edgar/data/844150/000110465920026118/a19-22922_1ex2d5.htm.

I. 1.642% Senior Callable Fixed-to-Fixed Reset Rate Notes due 2027

Base Prospectus:

Please refer to pages 15-32 of Exhibit 2.4 of the 2021 Annual Report, available at https://www.sec.gov/Archives/edgar/data/844150/000110465922030147/nwg-20211231xex2d4.htm

Prospectus Supplement:

Please refer to pages 36-46 of Exhibit 2.4 of the 2021 Annual Report, available at https://www.sec.gov/Archives/edgar/data/844150/000110465922030147/nwg-20211231xex2d4.htm

J. 5.516% Senior Callable Fixed-to-Fixed Reset Rate Notes due 2028

Base Prospectus:

Please see the section "Description of Debt Securities" of the Base Prospectus dated January 11, 2022, set out on pages 16-25 of this exhibit.

Prospectus Supplement:

DESCRIPTION OF THE SENIOR NOTES

In this prospectus supplement, we refer to the $1,000,000,000 5.516% Senior Callable Fixed-to-Fixed Reset Rate Notes due 2028 as the "Senior Notes". The following is a summary of certain terms of the Senior Notes. It supplements the description of the general terms of the debt securities we may issue contained in the accompanying prospectus under the heading "Description of Debt Securities." If there is any inconsistency between the following summary and the description in the accompanying prospectus, the following summary governs.

General

The Senior Notes will be issued in an aggregate principal amount of $1,000,000,000, and unless previously redeemed or repurchased (in the circumstances described in "—*Tax Redemption*", "—*Loss Absorption Disqualification Event*" and "—*Optional Redemption*" below), will mature on September 30, 2028.

The Senior Notes will constitute our direct, unconditional, unsecured and unsubordinated obligations ranking *pari passu*, without any preference among themselves, and equally with all our other outstanding unsecured and unsubordinated obligations, present and future, except such obligations as are preferred by operation of law.

The Senior Notes will constitute a separate series of debt securities issued under the Indenture. Book-entry interests in the Senior Notes will be issued in minimum denominations of $200,000 and in integral multiples of $1,000 in excess thereof.

The principal corporate trust office of the Trustee in London, United Kingdom, is designated as the principal paying agent. We may at any time designate additional paying agents or rescind the designation of paying agents or approve a change in the office through which any paying agent acts.

We will issue the Senior Notes in fully registered form. The Senior Notes will be represented by global securities registered in the name of a nominee of DTC. You will hold beneficial interest in the Senior Notes through the DTC and its participants. The Underwriters expect to deliver the Senior Notes through the facilities of the DTC on June 30, 2022. For a more detailed summary of the form of the Senior Notes and settlement and clearance arrangements, you should read "*Description of Certain Provisions Relating to Debt Securities and Contingent Convertible Securities—Form of Debt Securities and Contingent Convertible Securities; Book-Entry System*" in the

accompanying prospectus. Indirect holders trading their beneficial interests in the Senior Notes through the DTC must trade in the DTC's same-day funds settlement system and pay in immediately available funds. Secondary market trading through Euroclear and Clearstream, Luxembourg will occur in the ordinary way following the applicable rules and operating procedures of Euroclear and Clearstream, Luxembourg.

Definitive debt securities will only be issued in limited circumstances described under "*Description of Certain Provisions Relating to Debt Securities and Contingent Convertible Securities—Form of Debt Securities and Contingent Convertible Securities; Book-Entry System*" in the accompanying prospectus.

Payment of principal of and interest on the Senior Notes, so long as the Senior Notes are represented by global securities, will be made in immediately available funds. Beneficial interests in the global securities will trade in the same-day funds settlement system of the DTC, and secondary market trading activity in such interests will therefore settle in same-day funds.

We may, without the consent of the holders of the Senior Notes, issue additional notes having the same ranking and same interest rate, maturity date, redemption terms and other terms as the Senior Notes described in this prospectus supplement except for the price to the public and Issue Date of such Senior Notes, provided however that if such additional notes have the same CUSIP, ISIN and/or Common Code as the outstanding Senior Notes, such additional notes must be fungible with the outstanding Senior Notes for U.S. federal income tax purposes. Any such additional notes, together with the Senior Notes offered by this prospectus supplement, may constitute a single series of Senior Notes under the Indenture. There is no limitation on the amount of notes or other debt securities that we may issue under the Indenture.

Interest

The Senior Notes will bear interest from (and including) the Issue Date to (but excluding) September 30, 2027 (the "Interest Reset Date"), at a rate of 5.516% per annum, and from (and including) the Interest Reset Date to (but excluding) maturity (the "Reset Period"), at a rate per annum equal to the applicable U.S. Treasury Rate (as defined herein) as determined by the Calculation Agent on the Reset Determination Date (as defined herein), plus 2.270%. Interest on the Senior Notes will be paid semi-annually in arrear on March 30 and September 30 of each year (each, an "Interest Payment Date"), beginning on September 30, 2022, to (and including) maturity. The regular record dates for the Senior Notes will be the 15th day of each March and September of each year, whether or not a business day, immediately preceding the relevant Interest Payment Date.

The "Reset Determination Date" will be the second business day immediately preceding the Interest Reset Date.

A "business day" means any day, other than Saturday or Sunday, that is neither a legal holiday nor a day on which banking institutions are authorised or required by law or regulation to close in the City of New York or in the City of London.

Interest will be calculated on the basis of twelve 30-day months or, in the case of an incomplete month, the actual number of days elapsed, in each case assuming a 360-day year.

All percentages resulting from any calculation of any interest rate on the Senior Notes will be rounded, if necessary, to the nearest one hundred thousandth of a percentage point, with five one-millionths of a percentage point rounded upward, and all dollar amounts would be rounded to the nearest cent, with one-half cent being rounded upward.

If any scheduled Interest Payment Date is not a business day, we will pay interest on the next day that is a business day, but interest on such payment will not accrue during the period from and after such scheduled Interest Payment Date.

If the scheduled maturity date or date of redemption or repurchase (in the circumstances described in "*—Tax Redemption*", "*—Loss Absorption Disqualification Event*" and "*—Optional Redemption*" below) or repayment of the Senior Notes is not a business day, we may pay interest and principal, or make the payment then due, on the next

succeeding business day, but interest on that payment will not accrue during the period from and after the scheduled maturity date or date of redemption, repurchase or repayment.

Determination of the U.S. Treasury Rate

The U.S. Treasury Rate shall be determined by the Calculation Agent.

"U.S. Treasury Rate" means, with respect to the Interest Reset Date, the rate per annum equal to: (1) the average of the yields on actively traded U.S. Treasury securities adjusted to constant maturity, for one-year maturities, for the five business days immediately prior to the Reset Determination Date and appearing under the caption "Treasury constant maturities" at 5:00 p.m. (New York City time) on the Reset Determination Date in the applicable most recently published statistical release designated "H.15 Daily Update", or any successor publication that is published by the Board of Governors of the Federal Reserve System that establishes yields on actively traded U.S. Treasury securities adjusted to constant maturity, under the caption "Treasury Constant Maturities", for the maturity of one year; or (2) if such release (or any successor release) is not published during the week immediately prior to the Reset Determination Date or does not contain such yields, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the Interest Reset Date.

If the U.S. Treasury Rate cannot be determined, for whatever reason, as described under (1) or (2) above, "U.S. Treasury Rate" means the rate in percentage per annum as notified by the Calculation Agent to us equal to the yield on U.S. Treasury securities having a maturity of one year as set forth in the most recently published statistical release designated "H.15 Daily Update" under the caption "Treasury constant maturities" (or any successor publication that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded U.S. Treasury securities adjusted to constant maturity under the caption "Treasury constant maturities" for the maturity of one year) at 5:00 p.m. (New York City time) on the Reset Determination Date on which such rate was set forth in such release (or any successor release).

"Comparable Treasury Issue" means, with respect to the Reset Period, the U.S. Treasury security or securities selected by us with a maturity date on or about the last day of the Reset Period and that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities denominated in U.S. dollars and having a maturity of one year.

"Comparable Treasury Price" means, with respect to the Interest Reset Date, (i) the arithmetic average of the Reference Treasury Dealer Quotations for the Interest Reset Date (calculated on the Reset Determination Date preceding the Interest Reset Date), after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (ii) if fewer than five such Reference Treasury Dealer Quotations are received, the arithmetic average of all such quotations, or (iii) if fewer than two such Reference Treasury Dealer Quotations are received, then such Reference Treasury Dealer Quotation as quoted in writing to the Calculation Agent by a Reference Treasury Dealer.

"Reference Treasury Dealer" means each of up to five banks selected by us (following, where practicable, consultation with the Calculation Agent), or the affiliates of such banks, which are (i) primary U.S. Treasury securities dealers, and their respective successors, or (ii) market makers in pricing corporate bond issues denominated in U.S. dollars.

"Reference Treasury Dealer Quotations" means with respect to each Reference Treasury Dealer and the Interest Reset Date, the arithmetic average, as determined by the Calculation Agent, of the bid and offered prices for the applicable Comparable Treasury Issue, expressed in each case as a percentage of its principal amount, at 11:00 a.m. (New York City time), on the Reset Determination Date.

Tax Redemption

Subject to the provisions described under "*—Notice of Redemption*" and "*—Conditions to Redemption and Repurchase*" below, we may redeem the Senior Notes in whole but not in part, at any time in the event of certain

changes in the tax laws of the United Kingdom or any political subdivision or any authority thereof or therein having the power to tax and certain other limited circumstances. The circumstances in which we may redeem the Senior Notes and the applicable procedures are described further in the accompanying prospectus under "*Description of Debt Securities—Redemption.*"

In the event of such a redemption, the redemption price of the Senior Notes will be 100% of their principal amount together with any accrued but unpaid payments of interest to, but excluding, the date of redemption. If we elect to redeem the Senior Notes, they will cease to accrue interest from the redemption date, unless we fail to pay the redemption price on the payment date.

Loss Absorption Disqualification Event Redemption

Subject to the provisions described under "*—Notice of Redemption*" and "*—Conditions to Redemption and Repurchase*" below, we may redeem the Senior Notes at our sole discretion, in whole but not in part, at 100% of their principal amount together with any accrued but unpaid interest to, but excluding, the date of redemption, in the event we determine a Loss Absorption Disqualification Event has occurred and is continuing.

Before the publication of any notice of redemption pursuant to a Loss Absorption Disqualification Event, we shall deliver to the Trustee a certificate signed by two authorised signatories of NatWest Group plc stating that, in such signatories' belief, the condition for redemption has occurred and is continuing as at the date of the certificate, and the Trustee is entitled to conclusively rely on and shall accept such certificate as sufficient evidence of such occurrence, in which event it shall be conclusive and binding on the holders of the Senior Notes.

For these purposes:

A "**Loss Absorption Disqualification Event**" shall be deemed to have occurred if:

(i) at the time that any Loss Absorption Regulation becomes effective, and as a result of such Loss Absorption Regulation becoming so effective, in each case with respect to us and/or the Regulatory Group, on or after the issue date of the Senior Notes, the Senior Notes are or, in our opinion or in the opinion of the PRA are likely to be fully or partially excluded from our and/or the Regulatory Group's (A) own funds and eligible liabilities and/or (B) loss absorbing capacity instruments; or

(ii) as a result of any amendment to, or change in, or replacement of, any Loss Absorption Regulation, or any change in the application or official interpretation of any Loss Absorption Regulation, in any such case becoming effective on or after the issue date of the Senior Notes, the Senior Notes are or, in our opinion or in the opinion of the PRA are likely to be, fully or partially excluded from our and/or the Regulatory Group's (A) own funds and eligible liabilities and/or (B) loss absorbing capacity instruments, in each case as determined in accordance with, and pursuant to, the relevant Loss Absorption Regulations as applicable to us and/or the Regulatory Group; *provided* that in the case of (i) and (ii) above, a Loss Absorption Disqualification Event shall not occur where such exclusion of the Senior Notes is due to the remaining maturity of the Senior Notes being less than any period prescribed by any applicable eligibility criteria under the relevant Loss Absorption Regulations effective with respect to us and/or the Regulatory Group on the issue date of the Senior Notes.

"**Loss Absorption Regulations**" means, at any time, the laws, regulations, requirements, guidelines, rules, standards and policies relating to minimum requirements for own funds and eligible liabilities and/or loss absorbing capacity instruments of the United Kingdom, the PRA, the United Kingdom resolution authority, the Financial Stability Board and/or of the European Parliament or of the Council of the European Union then in effect in the United Kingdom including, without limitation to the generality of the foregoing, any delegated or implementing acts (such as regulatory technical standards) adopted by the European Commission and any regulations, requirements, guidelines, rules, standards and policies relating to requirements for own funds and eligible liabilities and/or loss absorbing capacity instruments adopted by the PRA and/or the United Kingdom resolution authority from time to

time (whether or not such regulations, requirements, guidelines, rules, standards or policies are applied generally or specifically to us or to the Regulatory Group).

"**PRA**" means the UK Prudential Regulation Authority and/or such other governmental authority in the United Kingdom having primary supervisory authority with respect to our business.

"**Regulatory Group**" means us, our subsidiary undertakings, participations, participating interests and any subsidiary undertakings, participations or participating interests held (directly or indirectly) by any of our subsidiary undertakings from time to time and any other undertakings from time to time consolidated with us for regulatory purposes, in each case in accordance with the rules and guidance of the PRA then in effect.

Optional Redemption

Subject to the provisions described under "*—Notice of Redemption*" and "*—Conditions to Redemption and Repurchase*" below, we may redeem the Senior Notes at our sole discretion, in whole but not in part, on September 30, 2027 (the "Optional Redemption Date") at 100% of their principal amount together with any accrued but unpaid interest to, but excluding, the date of redemption.

The Senior Notes will not be redeemable at the option of the holders at any time.

Notice of Redemption

If we elect to redeem the Senior Notes at our option on the Optional Redemption Date or due to the occurrence of a tax law change or a Loss Absorption Disqualification Event, we will give holders of the Senior Notes not less than five (5) business days or more than 60 calendar days' notice in accordance with "*—Notices*" below, and to the Trustee at least five (5) business days prior to such date, unless a shorter notice period shall be satisfactory to the Trustee. Except as otherwise provided herein, such notice shall be irrevocable but may be conditioned on the occurrence of any event or circumstance.

Any redemption notice will state:

- the redemption date;
- the redemption price;
- that, and subject to what conditions, the redemption price will become due and payable on the redemption date and that payments will cease to accrue on such date;
- the place or places at which each holder may obtain payment of the redemption price; and
- the CUSIP, Common Code and/or ISIN number or numbers, if any, with respect to the Senior Notes.

If we have elected to redeem the Senior Notes but prior to the payment of the redemption amount with respect to such redemption the relevant UK authority exercises its U.K. Bail-in power in respect of the Senior Notes, the relevant redemption notice shall be automatically rescinded and shall be of no force and effect, and no payment of the redemption amount will be due and payable.

Conditions to Redemption and Repurchase

Notwithstanding any other provision, we may only redeem the Senior Notes prior to the maturity date or repurchase the Senior Notes (and give notice thereof to the holders of Senior Notes in the case of redemption) if we have obtained the prior consent of the PRA, to the extent such consent is at the relevant time and in the relevant circumstances required (if at all) by the Loss Absorption Regulations or applicable laws or regulations in effect in the United Kingdom.

Agreement with Respect to the Exercise of UK Bail-in Power

Notwithstanding any other agreements, arrangements, or understandings between us and any holder or beneficial owner of the Senior Notes, by its acquisition of Senior Notes, each holder and beneficial owner of the Senior Notes acknowledges, accepts, agrees to be bound by and consents to the exercise of any UK bail-in power by the relevant UK authority which may result in (i) the reduction or cancellation of all, or a portion, of the principal amount of, or interest on, the Senior Notes; (ii) the conversion of all, or a portion, of the principal amount of, or interest on, the Senior Notes into ordinary shares or other securities or other obligations of NatWest Group plc or another person; and/or (iii) the amendment or alteration of the maturity of the Senior Notes, or amendment of the amount of interest due on the Senior Notes, or the dates on which interest becomes payable, including by suspending payment for a temporary period; which UK bail-in power may be exercised by means of variation of the terms of the Senior Notes solely to give effect to the exercise by the relevant UK authority of such UK bail-in power. Each holder and beneficial owner of the Senior Notes further acknowledges and agrees that the rights of the holders and/or beneficial owners under the Senior Notes are subject to, and will be varied, if necessary, solely to give effect to, the exercise of any UK bail-in power by the relevant UK authority.

For these purposes, a "UK bail-in power" is any write-down, conversion, transfer, modification or suspension power existing from time to time under any laws, regulations, rules or requirements relating to the resolution of banks, banking group companies, credit institutions and/or investment firms incorporated in the United Kingdom in effect and applicable in the United Kingdom to NatWest Group plc or other members of the Group, including but not limited to any such laws, regulations, rules or requirements which are implemented, adopted or enacted within the context of a European Union directive or regulation of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms (notwithstanding that the UK is no longer a member state of the European Union) and/or within the context of a UK resolution regime under the Banking Act 2009, as the same has been or may be amended from time to time (whether pursuant to the UK Financial Services (Banking Reform) Act 2013 (the "Banking Reform Act 2013"), secondary legislation or otherwise, the "Banking Act"), pursuant to which any obligations of a bank, banking group company, credit institution or investment firm or any of its affiliates can be reduced, cancelled, modified, transferred and/or converted into shares or other securities or obligations of the obligor or any other person (or suspended for a temporary period) or pursuant to which any right in a contract governing such obligations may be deemed to have been exercised.

A reference to the "relevant UK authority" is to any authority with the ability to exercise a UK bail-in power.

No repayment of the principal amount of the Senior Notes or payment of interest on the Senior Notes shall become due and payable after the exercise of any UK bail-in power by the relevant UK authority unless, at the time that such repayment or payment, respectively, is scheduled to become due, such repayment or payment would be permitted to be made by us under the laws and regulations of the United Kingdom applicable to us and the Group.

If we have elected to redeem the Senior Notes but prior to the payment of the redemption amount with respect to such redemption the relevant UK authority exercises its UK bail-in power with respect to the Senior Notes, the relevant redemption notices shall be automatically rescinded and shall be of no force and effect, and no payment of the redemption amount will be due and payable.

The exercise of any UK bail-in power by the relevant UK authority shall not constitute a default or Event of Default under the terms of the Senior Notes or the Indenture.

In addition, by its acquisition of Senior Notes, each holder (including each beneficial holder) of the Senior Notes:

(i) acknowledges and agrees that the exercise of the UK bail-in power by the relevant UK authority with respect to the Senior Notes shall not give rise to a Default or Event of Default for purposes of Section 315(b) (*Notice of Default*) and Section 315(c) (*Duties of the Trustee in Case of Default*) of the Trust Indenture Act;

(ii) to the extent permitted by the Trust Indenture Act, waives any and all claims against the Trustee for, agrees not to initiate a suit against the Trustee in respect of, and agrees that the Trustee shall not be liable for, any action that the Trustee takes, or abstains from taking, in either case in accordance with the exercise of the UK bail-in power by the relevant UK authority with respect to the Senior Notes;

(iii) agrees that, upon the exercise of any UK bail-in power by the relevant UK authority with respect to the Senior Notes,

a. the Trustee shall not be required to take any further directions from holders of the notes under Section 5.12 *(Control by Holders)* of the Indenture, which section authorises holders of a majority in aggregate outstanding principal amount of the notes to direct certain actions relating to the notes, and

b. the Indenture shall impose no duties upon the Trustee whatsoever with respect to the exercise of any UK bail-in power by the relevant UK authority. Notwithstanding the foregoing, if, following the completion of the exercise of the UK bail-in power by the relevant UK authority in respect of the Senior Notes, the Senior Notes remain outstanding (for example, if the exercise of the UK bail-in power results in only a partial write-down of the principal of such Senior Notes), then the Trustee's duties under the Indenture shall remain applicable with respect to the Senior Notes following such completion to the extent that we and the Trustee shall agree pursuant to a supplemental indenture.

(iv) shall be deemed to have (i) consented to the exercise of any UK bail-in power which may be imposed without any prior notice by the relevant UK authority of its decision to exercise such power with respect to the Senior Notes and (ii) authorised, directed and requested DTC and any direct participant in DTC or other intermediary through which it holds such Senior Notes to take any and all necessary action, if required, to implement the exercise of any UK bail-in power with respect to the Senior Notes as it may be imposed, without any further action or direction on the part of such holder.

For a discussion of certain risk factors relating to the UK bail-in power, see "*Risk Factors—Risks relating to the Senior Notes*".

Upon the exercise of the UK bail-in power by the relevant UK authority with respect to the Senior Notes, we shall provide a written notice to DTC as soon as practicable regarding such exercise of the UK bail-in power for purposes of notifying holders of such occurrence. We shall also deliver a copy of such notice to the Trustee for information purposes.

Events of Default and Defaults; Limitation of Remedies

Events of Default

An "Event of Default" with respect to the Senior Notes shall only result if:

- a court of competent jurisdiction makes an order for our winding up which is not successfully appealed within 30 days; or
- an effective shareholders' resolution is validly adopted for our winding up,

in each case other than under or in connection with a scheme of amalgamation or reconstruction not involving a bankruptcy or insolvency.

There are no other Events of Default under the Senior Notes. If an Event of Default with respect to Senior Notes occurs and is continuing, the Trustee or the holder or holders of at least 25% in aggregate principal amount of the outstanding Senior Notes may declare the principal amount of, and any accrued but unpaid interest on such Senior Notes to be due and payable immediately in accordance with the terms of the Indenture. However, after this

declaration but before the Trustee obtains a judgment or decree for payment of money due, the holder or holders of a majority in aggregate principal amount of the outstanding Senior Notes may rescind the declaration of acceleration and its consequences, but only if all Events of Default have been remedied and all payments due, other than those due as a result of acceleration, have been made.

There are no other circumstances in which holders of Senior Notes or the Trustee may accelerate amounts to be paid in respect of the Senior Notes.

Default

A "Default" with respect to the Senior Notes shall result if:

- any installment of interest in respect of the Senior Notes is not paid on or before the relevant Interest Payment Date and such failure continues for 14 days; or
- all or any part of the principal amount of the Senior Notes is not paid when it otherwise becomes due and payable, whether upon redemption or otherwise, and such failure continues for 7 days.

If a Default occurs and is continuing, the Trustee may commence a proceeding for our winding up, but the Trustee may not declare the principal amount of any outstanding Senior Notes to be due and payable.

However and notwithstanding any other provisions, a failure to make any payment on the Senior Notes shall not be a Default if it is withheld or refused, upon independent counsel's advice delivered to the Trustee, in order to comply with any applicable fiscal or other law or regulation or order of any court of competent jurisdiction. In such case, the Trustee may require us to take any action which, upon independent counsel's advice delivered to the Trustee, is appropriate and reasonable in the circumstances (including proceedings for a court declaration), in which case we shall immediately take and expeditiously proceed with the action and shall be bound by any final resolution resulting therefrom. If any such action results in a determination that the relevant payment can be made without violating any applicable law, regulation or order then the payment shall become due and payable on the expiration of the applicable 14-day or seven-day period after the Trustee gives written notice to us informing us of such determination.

Upon the occurrence of any Event of Default or Default, we shall give prompt written notice to the Trustee. In accordance with the Indenture, the Trustee may proceed to protect and enforce its rights and the rights of the holders of the Senior Notes whether in connection with any breach by us of our obligations under the Senior Notes, the Indenture or otherwise, including by judicial proceedings, provided that we shall not, as a result of any such action by the Trustee, be required to pay any amount representing or measured by reference to principal or interest on the Senior Notes prior to any date on which the principal of, or any interest on, the Senior Notes would have otherwise been payable.

Other than the limited remedies specified above, no remedy against us shall be available to the Trustee or the holders of the Senior Notes whether for the recovery of amounts owing in respect of such Senior Notes or under the Indenture or in respect of any breach by us of our obligations under the Indenture or in respect of the Senior Notes, except that the Trustee and the holders shall have such rights and powers as they are entitled to have under the Trust Indenture Act of 1939 (the "Trust Indenture Act"), including the Trustee's prior lien on any amounts collected following a Default or Event of Default for payment of the Trustee's fees and expenses, and provided that any payments on the Senior Notes are subject to the ranking provisions set forth in the Indenture.

Notwithstanding any contrary provisions, nothing shall impair the right of a holder, absent the holder's consent, to sue for any payments due but unpaid with respect to the Senior Notes.

The provisions described under "*Description of Debt Securities—Events of Default and Defaults; Limitation of Remedies*" in the accompanying prospectus do not apply to the Senior Notes.

Payment of Additional Amounts

The government of the United Kingdom or any political subdivision or any authority thereof or therein having the power to tax may require us to withhold or deduct amounts from payments on the Senior Notes for taxes or other governmental charges. If such a withholding or deduction is required, we may be required, subject to certain exceptions, to pay additional amounts such that the net amount paid to holders of the Senior Notes, after such deduction or withholding, equals the amount that would have been payable had no such withholding or deduction been required ("Additional Amounts"). For more information on Additional Amounts and the situations in which we must pay Additional Amounts, see "*Description of Debt Securities—Additional Amounts*" in the accompanying prospectus.

Whenever in this prospectus supplement there is mentioned, in the context of the Senior Notes, the payment of the principal, premium, if any, or interest on or in respect of any Senior Note, such mention shall be deemed to include mention of the payment of Additional Amounts referred to above and further described under "*Description of Debt Securities—Additional Amounts*" in the accompanying prospectus, to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof pursuant to the provisions of the Indenture and as if express mention of the payment of Additional Amounts (if applicable) were made in any provisions hereof where such express mention is not made.

Noteholder's Waiver of Right to Set-Off

By acquiring a Senior Note, each holder (and the Trustee acting on behalf of the holders) will be deemed to have waived to the fullest extent permitted by law any right of set-off, counterclaim or combination of accounts with respect to such Senior Note or the Indenture (or between our obligations under or in respect of any Senior Note and any liability owed by a holder) that they (or the Trustee acting on their behalf) might otherwise have against us, whether before or during our winding-up, liquidation or administration. Notwithstanding the above, if any such rights and claims of any such holder (or the Trustee acting on behalf of such holders) against us are discharged by set-off, such holder (or the Trustee acting on behalf of such holders) will immediately pay an amount equal to the amount of such discharge to us or, in the event of a winding-up, liquidation or administration, our liquidator or administrator (or other relevant insolvency official), as the case may be, to be held on trust for senior creditors, and until such time as payment is made will hold a sum equal to such amount on trust for senior creditors, and accordingly such discharge shall be deemed not to have taken place.

Trustee; Direction of Trustee

Our obligations to indemnify the Trustee in accordance with Section 6.07 of the Indenture shall survive the exercise of the UK bail-in power by the relevant UK authority with respect to the Senior Notes.

By its acquisition of Senior Notes, each holder (including each beneficial holder) of the Senior Notes acknowledges and agrees that, upon the exercise of any UK bail-in power by the relevant UK authority, (a) the Trustee shall not be required to take any further directions from holders of the Senior Notes under Section 5.12 (*Control by Holders*) of the Indenture, which authorises holders of a majority in aggregate outstanding principal amount of the Senior Notes to direct certain actions relating to the Senior Notes, and (b) neither the Base Indenture nor the Supplemental Indenture shall impose any duties upon the Trustee whatsoever with respect to the exercise of any UK bail-in power by the relevant UK authority. Notwithstanding the foregoing, if, following the completion of the exercise of the UK bail-in power by the relevant UK authority, the Senior Notes remain outstanding (for example, if the exercise of the UK bail-in power results in only a partial write-down of the principal of the Senior Notes), then the Trustee's duties under the Indenture shall remain applicable with respect to the Senior Notes following such completion to the extent that we and the Trustee shall agree pursuant to a supplemental indenture or an amendment to the Indenture.

In addition to the foregoing, the Trustee may decline to act or accept direction from holders unless it receives written direction from holders representing a majority in aggregate principal amount of the Senior Notes and security and/or indemnity satisfactory to the Trustee in its sole discretion. The Indenture shall not be deemed to require the Trustee to take any action which may conflict with applicable law, or which may be unjustly prejudicial

to the holders not taking part in the direction, or which would subject the Trustee to undue risk or for which it is not indemnified to its satisfaction in its sole discretion.

The Trustee makes no representations regarding, and shall not be liable with respect to, the information set forth in this prospectus supplement.

See "*—Events of Default and Defaults; Limitation of Remedies*" above for a description of the Trustee's procedures and remedies available in connection with an Event of Default or Default.

Notices

All notices regarding the Senior Notes will be deemed to be validly given if sent by first-class mail to the holders of the Senior Notes at their addresses recorded in the register.

Until such time as any definitive securities are issued, there may, so long as any Global Notes representing the Senior Notes are held in their entirety on behalf of DTC, be substituted for such notice by first-class mail the delivery of the relevant notice to DTC for communication by them to the holders of the Senior Notes, in accordance with DTC's applicable procedures. Neither the failure to give any notice to a particular holder, nor any defect in a notice given to a particular holder, will affect the sufficiency of any notice given to another holder.

Notices to be given by any holders of the Senior Notes to the Trustee shall be in writing to the Trustee at its corporate trust office. While any of the Senior Notes are represented by a Global Note, such notice may be given by any holder to the Trustee through DTC in such manner as DTC may approve for this purpose.

Subsequent Holders' Agreement

Holders of the Senior Notes that acquire the Senior Notes in the secondary market shall be deemed to acknowledge, agree to be bound by and consent to the same provisions specified herein to the same extent as the holders and beneficial owners of the Senior Notes that acquire the Senior Notes upon their initial issuance, including, without limitation, with respect to the acknowledgement and agreement to be bound by and consent to the terms of the Senior Notes related to the UK bail-in power.

Governing Law

The Senior Notes and the Indenture will be governed by and construed in accordance with the laws of the State of New York.

Listing

We intend to apply for the listing of the Senior Notes on the New York Stock Exchange in accordance with its rules.

K. 7.472% Senior Callable Fixed-to-Fixed Reset Rate Notes due 2026

Base Prospectus:

Please see the section "Description of Debt Securities" of the Base Prospectus dated January 11, 2022, set out on pages 16-25 of this exhibit.

Prospectus Supplement:

DESCRIPTION OF THE SENIOR NOTES

In this prospectus supplement, we refer to the $1,500,000,000 7.472% Senior Callable Fixed-to-Fixed Reset Rate Notes due 2026 as the "Senior Notes". The following is a summary of certain terms of the Senior Notes. It

supplements the description of the general terms of the debt securities we may issue contained in the accompanying prospectus under the heading "Description of Debt Securities." If there is any inconsistency between the following summary and the description in the accompanying prospectus, the following summary governs.

General

The Senior Notes will be issued in an aggregate principal amount of $1,500,000,000, and unless previously redeemed or repurchased (in the circumstances described in "*—Tax Redemption*", "*—Loss Absorption Disqualification Event*" and "*—Optional Redemption*" below), will mature on November 10, 2026.

The Senior Notes will constitute our direct, unconditional, unsecured and unsubordinated obligations ranking *pari passu*, without any preference among themselves, and equally with all our other outstanding unsecured and unsubordinated obligations, present and future, except such obligations as are preferred by operation of law.

The Senior Notes will constitute a separate series of debt securities issued under the Indenture. Book-entry interests in the Senior Notes will be issued in minimum denominations of $200,000 and in integral multiples of $1,000 in excess thereof.

The principal corporate trust office of the Trustee in London, United Kingdom, is designated as the principal paying agent. We may at any time designate additional paying agents or rescind the designation of paying agents or approve a change in the office through which any paying agent acts.

We will issue the Senior Notes in fully registered form. The Senior Notes will be represented by global securities registered in the name of a nominee of DTC. You will hold beneficial interest in the Senior Notes through the DTC and its participants. The Underwriters expect to deliver the Senior Notes through the facilities of the DTC on November 10, 2022. For a more detailed summary of the form of the Senior Notes and settlement and clearance arrangements, you should read "*Description of Certain Provisions Relating to Debt Securities and Contingent Convertible Securities—Form of Debt Securities and Contingent Convertible Securities; Book-Entry System*" in the accompanying prospectus. Indirect holders trading their beneficial interests in the Senior Notes through the DTC must trade in the DTC's same-day funds settlement system and pay in immediately available funds. Secondary market trading through Euroclear and Clearstream, Luxembourg will occur in the ordinary way following the applicable rules and operating procedures of Euroclear and Clearstream, Luxembourg.

Definitive debt securities will only be issued in limited circumstances described under "*Description of Certain Provisions Relating to Debt Securities and Contingent Convertible Securities—Form of Debt Securities and Contingent Convertible Securities; Book-Entry System*" in the accompanying prospectus.

Payment of principal of and interest on the Senior Notes, so long as the Senior Notes are represented by global securities, will be made in immediately available funds. Beneficial interests in the global securities will trade in the same-day funds settlement system of the DTC, and secondary market trading activity in such interests will therefore settle in same-day funds.

We may, without the consent of the holders of the Senior Notes, issue additional notes having the same ranking and same interest rate, maturity date, redemption terms and other terms as the Senior Notes described in this prospectus supplement except for the price to the public and Issue Date of such Senior Notes, provided however that if such additional notes have the same CUSIP, ISIN and/or Common Code as the outstanding Senior Notes, such additional notes must be fungible with the outstanding Senior Notes for U.S. federal income tax purposes. Any such additional notes, together with the Senior Notes offered by this prospectus supplement, may constitute a single series of Senior Notes under the Indenture. There is no limitation on the amount of notes or other debt securities that we may issue under the Indenture.

Interest

The Senior Notes will bear interest from (and including) the Issue Date to (but excluding) November 10, 2025 (the "Interest Reset Date"), at a rate of 7.472% per annum, and from (and including) the Interest Reset Date to (but excluding) maturity (the "Reset Period"), at a rate per annum equal to the applicable U.S. Treasury Rate (as defined herein) as determined by the Calculation Agent on the Reset Determination Date (as defined herein), plus 2.850%. Interest on the Senior Notes will be paid semi-annually in arrear on May 10 and November 10 of each year (each, an "Interest Payment Date"), beginning on May 10, 2023, to (and including) maturity. The regular record dates for the Senior Notes will be the 25th day of April and 26th day of October of each year, whether or not a business day, immediately preceding the relevant Interest Payment Date.

The "Reset Determination Date" will be the second business day immediately preceding the Interest Reset Date.

A "business day" means any day, other than Saturday or Sunday, that is neither a legal holiday nor a day on which banking institutions are authorised or required by law or regulation to close in the City of New York or in the City of London.

Interest will be calculated on the basis of twelve 30-day months or, in the case of an incomplete month, the actual number of days elapsed, in each case assuming a 360-day year.

All percentages resulting from any calculation of any interest rate on the Senior Notes will be rounded, if necessary, to the nearest one hundred thousandth of a percentage point, with five one-millionths of a percentage point rounded upward, and all dollar amounts would be rounded to the nearest cent, with one-half cent being rounded upward.

If any scheduled Interest Payment Date is not a business day, we will pay interest on the next day that is a business day, but interest on such payment will not accrue during the period from and after such scheduled Interest Payment Date.

If the scheduled maturity date or date of redemption or repurchase (in the circumstances described in "*—Tax Redemption*", "*—Loss Absorption Disqualification Event*" and "*—Optional Redemption*" below) or repayment of the Senior Notes is not a business day, we may pay interest and principal, or make the payment then due, on the next succeeding business day, but interest on that payment will not accrue during the period from and after the scheduled maturity date or date of redemption, repurchase or repayment.

Determination of the U.S. Treasury Rate

The U.S. Treasury Rate shall be determined by the Calculation Agent.

"U.S. Treasury Rate" means, with respect to the Interest Reset Date, the rate per annum equal to: (1) the average of the yields on actively traded U.S. Treasury securities adjusted to constant maturity, for one-year maturities, for the five business days immediately prior to the Reset Determination Date and appearing under the caption "Treasury constant maturities" at 5:00 p.m. (New York City time) on the Reset Determination Date in the applicable most recently published statistical release designated "H.15 Daily Update", or any successor publication that is published by the Board of Governors of the Federal Reserve System that establishes yields on actively traded U.S. Treasury securities adjusted to constant maturity, under the caption "Treasury Constant Maturities", for the maturity of one year; or (2) if such release (or any successor release) is not published during the week immediately prior to the Reset Determination Date or does not contain such yields, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the Interest Reset Date.

If the U.S. Treasury Rate cannot be determined, for whatever reason, as described under (1) or (2) above, "U.S. Treasury Rate" means the rate in percentage per annum as notified by the Calculation Agent to us equal to the yield on U.S. Treasury securities having a maturity of one year as set forth in the most recently published statistical release designated "H.15 Daily Update" under the caption "Treasury constant maturities" (or any successor

publication that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded U.S. Treasury securities adjusted to constant maturity under the caption "Treasury constant maturities" for the maturity of one year) at 5:00 p.m. (New York City time) on the Reset Determination Date on which such rate was set forth in such release (or any successor release).

"Comparable Treasury Issue" means, with respect to the Reset Period, the U.S. Treasury security or securities selected by us with a maturity date on or about the last day of the Reset Period and that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities denominated in U.S. dollars and having a maturity of one year.

"Comparable Treasury Price" means, with respect to the Interest Reset Date, (i) the arithmetic average of the Reference Treasury Dealer Quotations for the Interest Reset Date (calculated on the Reset Determination Date preceding the Interest Reset Date), after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (ii) if fewer than five such Reference Treasury Dealer Quotations are received, the arithmetic average of all such quotations, or (iii) if fewer than two such Reference Treasury Dealer Quotations are received, then such Reference Treasury Dealer Quotation as quoted in writing to the Calculation Agent by a Reference Treasury Dealer.

"Reference Treasury Dealer" means each of up to five banks selected by us (following, where practicable, consultation with the Calculation Agent), or the affiliates of such banks, which are (i) primary U.S. Treasury securities dealers, and their respective successors, or (ii) market makers in pricing corporate bond issues denominated in U.S. dollars.

"Reference Treasury Dealer Quotations" means with respect to each Reference Treasury Dealer and the Interest Reset Date, the arithmetic average, as determined by the Calculation Agent, of the bid and offered prices for the applicable Comparable Treasury Issue, expressed in each case as a percentage of its principal amount, at 11:00 a.m. (New York City time), on the Reset Determination Date.

Tax Redemption

Subject to the provisions described under "*—Notice of Redemption*" and "*—Conditions to Redemption and Repurchase*" below, we may redeem the Senior Notes, in whole but not in part, at any time in the event of certain changes in the tax laws of the United Kingdom or any political subdivision or any authority thereof or therein having the power to tax and certain other limited circumstances. The circumstances in which we may redeem the Senior Notes and the applicable procedures are described further in the accompanying prospectus under "*Description of Debt Securities—Redemption*."

In the event of such a redemption, the redemption price of the Senior Notes will be 100% of their principal amount together with any accrued but unpaid payments of interest to, but excluding, the date of redemption. If we elect to redeem the Senior Notes, they will cease to accrue interest from the redemption date, unless we fail to pay the redemption price on the payment date.

Loss Absorption Disqualification Event Redemption

Subject to the provisions described under "*—Notice of Redemption*" and "*—Conditions to Redemption and Repurchase*" below, we may redeem the Senior Notes at our sole discretion, in whole but not in part, at 100% of their principal amount together with any accrued but unpaid interest to, but excluding, the date of redemption, in the event we determine a Loss Absorption Disqualification Event has occurred and is continuing.

Before the publication of any notice of redemption pursuant to a Loss Absorption Disqualification Event, we shall deliver to the Trustee a certificate signed by two authorised signatories of NatWest Group plc stating that, in such signatories' belief, the condition for redemption has occurred and is continuing as at the date of the certificate, and the Trustee is entitled to conclusively rely on and shall accept such certificate as sufficient evidence of such occurrence, in which event it shall be conclusive and binding on the holders of the Senior Notes.

For these purposes:

A "**Loss Absorption Disqualification Event**" shall be deemed to have occurred if:

(i) at the time that any Loss Absorption Regulation becomes effective, and as a result of such Loss Absorption Regulation becoming so effective, in each case with respect to us and/or the Regulatory Group, on or after the issue date of the Senior Notes, the Senior Notes are or, in our opinion or in the opinion of the PRA are likely to be fully or partially excluded from our and/or the Regulatory Group's (A) own funds and eligible liabilities and/or (B) loss absorbing capacity instruments; or

(ii) as a result of any amendment to, or change in, or replacement of, any Loss Absorption Regulation, or any change in the application or official interpretation of any Loss Absorption Regulation, in any such case becoming effective on or after the issue date of the Senior Notes, the Senior Notes are or, in our opinion or in the opinion of the PRA are likely to be, fully or partially excluded from our and/or the Regulatory Group's (A) own funds and eligible liabilities and/or (B) loss absorbing capacity instruments,

in each case as determined in accordance with, and pursuant to, the relevant Loss Absorption Regulations as applicable to us and/or the Regulatory Group; *provided* that in the case of (i) and (ii) above, a Loss Absorption Disqualification Event shall not occur where such exclusion of the Senior Notes is due to the remaining maturity of the Senior Notes being less than any period prescribed by any applicable eligibility criteria under the relevant Loss Absorption Regulations effective with respect to us and/or the Regulatory Group on the issue date of the Senior Notes.

"**Loss Absorption Regulations**" means, at any time, the laws, regulations, requirements, guidelines, rules, standards and policies relating to minimum requirements for own funds and eligible liabilities and/or loss absorbing capacity instruments of the United Kingdom, the PRA, the United Kingdom resolution authority, the Financial Stability Board and/or of the European Parliament or of the Council of the European Union then in effect in the United Kingdom including, without limitation to the generality of the foregoing, any delegated or implementing acts (such as regulatory technical standards) adopted by the European Commission and any regulations, requirements, guidelines, rules, standards and policies relating to requirements for own funds and eligible liabilities and/or loss absorbing capacity instruments adopted by the PRA and/or the United Kingdom resolution authority from time to time (whether or not such regulations, requirements, guidelines, rules, standards or policies are applied generally or specifically to us or to the Regulatory Group).

"**PRA**" means the UK Prudential Regulation Authority and/or such other governmental authority in the United Kingdom having primary supervisory authority with respect to our business.

"**Regulatory Group**" means us, our subsidiary undertakings, participations, participating interests and any subsidiary undertakings, participations or participating interests held (directly or indirectly) by any of our subsidiary undertakings from time to time and any other undertakings from time to time consolidated with us for regulatory purposes, in each case in accordance with the rules and guidance of the PRA then in effect.

Optional Redemption

Subject to the provisions described under "*—Notice of Redemption*" and "*—Conditions to Redemption and Repurchase*" below, we may redeem the Senior Notes at our sole discretion, in whole but not in part, on November 10, 2025 (the "Optional Redemption Date"), at 100% of their principal amount together with any accrued but unpaid interest to, but excluding, the date of redemption.

The Senior Notes will not be redeemable at the option of the holders at any time.

Notice of Redemption

If we elect to redeem the Senior Notes at our option on the Optional Redemption Date or due to the occurrence of a tax law change or a Loss Absorption Disqualification Event, we will give holders of the Senior Notes not less than five (5) business days or more than 60 calendar days' notice in accordance with "*—Notices*" below, and to the Trustee at least five (5) business days prior to such date, unless a shorter notice period shall be satisfactory to the Trustee. Except as otherwise provided herein, such notice shall be irrevocable but may be conditioned on the occurrence of any event or circumstance.

Any redemption notice will state:

- the redemption date;
- the redemption price;
- that, and subject to what conditions, the redemption price will become due and payable on the redemption date and that payments will cease to accrue on such date;
- the place or places at which each holder may obtain payment of the redemption price; and
- the CUSIP, Common Code and/or ISIN number or numbers, if any, with respect to the Senior Notes.

If we have elected to redeem the Senior Notes but prior to the payment of the redemption amount with respect to such redemption the relevant UK authority exercises its U.K. Bail-in power in respect of the Senior Notes, the relevant redemption notice shall be automatically rescinded and shall be of no force and effect, and no payment of the redemption amount will be due and payable.

Conditions to Redemption and Repurchase

Notwithstanding any other provision, we may only redeem the Senior Notes prior to the maturity date or repurchase the Senior Notes (and give notice thereof to the holders of Senior Notes in the case of redemption) if we have obtained the prior consent of the PRA, to the extent such consent is at the relevant time and in the relevant circumstances required (if at all) by the Loss Absorption Regulations or applicable laws or regulations in effect in the United Kingdom.

Agreement with Respect to the Exercise of UK Bail-in Power

Notwithstanding any other agreements, arrangements, or understandings between us and any holder or beneficial owner of the Senior Notes, by its acquisition of Senior Notes, each holder and beneficial owner of the Senior Notes acknowledges, accepts, agrees to be bound by and consents to the exercise of any UK bail-in power by the relevant UK authority which may result in (i) the reduction or cancellation of all, or a portion, of the principal amount of, or interest on, the Senior Notes; (ii) the conversion of all, or a portion, of the principal amount of, or interest on, the Senior Notes into ordinary shares or other securities or other obligations of NatWest Group plc or another person; and/or (iii) the amendment or alteration of the maturity of the Senior Notes, or amendment of the amount of interest due on the Senior Notes, or the dates on which interest becomes payable, including by suspending payment for a temporary period; which UK bail-in power may be exercised by means of variation of the terms of the Senior Notes solely to give effect to the exercise by the relevant UK authority of such UK bail-in power. Each holder and beneficial owner of the Senior Notes further acknowledges and agrees that the rights of the holders and/or beneficial owners under the Senior Notes are subject to, and will be varied, if necessary, solely to give effect to, the exercise of any UK bail-in power by the relevant UK authority.

For these purposes, a "UK bail-in power" is any write-down, conversion, transfer, modification or suspension power existing from time to time under any laws, regulations, rules or requirements relating to the resolution of banks, banking group companies, credit institutions and/or investment firms incorporated in the United Kingdom in

effect and applicable in the United Kingdom to NatWest Group plc or other members of the Group, including but not limited to any such laws, regulations, rules or requirements which are implemented, adopted or enacted within the context of a European Union directive or regulation of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms (notwithstanding that the UK is no longer a member state of the European Union) and/or within the context of a UK resolution regime under the Banking Act 2009, as the same has been or may be amended from time to time (whether pursuant to the UK Financial Services (Banking Reform) Act 2013 (the "Banking Reform Act 2013"), secondary legislation or otherwise, the "Banking Act"), pursuant to which any obligations of a bank, banking group company, credit institution or investment firm or any of its affiliates can be reduced, cancelled, modified, transferred and/or converted into shares or other securities or obligations of the obligor or any other person (or suspended for a temporary period) or pursuant to which any right in a contract governing such obligations may be deemed to have been exercised.

A reference to the "relevant UK authority" is to any authority with the ability to exercise a UK bail-in power.

No repayment of the principal amount of the Senior Notes or payment of interest on the Senior Notes shall become due and payable after the exercise of any UK bail-in power by the relevant UK authority unless, at the time that such repayment or payment, respectively, is scheduled to become due, such repayment or payment would be permitted to be made by us under the laws and regulations of the United Kingdom applicable to us and the Group.

If we have elected to redeem the Senior Notes but prior to the payment of the redemption amount with respect to such redemption the relevant UK authority exercises its UK bail-in power with respect to the Senior Notes, the relevant redemption notices shall be automatically rescinded and shall be of no force and effect, and no payment of the redemption amount will be due and payable.

The exercise of any UK bail-in power by the relevant UK authority shall not constitute a default or Event of Default under the terms of the Senior Notes or the Indenture.

In addition, by its acquisition of Senior Notes, each holder (including each beneficial holder) of the Senior Notes:

(i) acknowledges and agrees that the exercise of the UK bail-in power by the relevant UK authority with respect to the Senior Notes shall not give rise to a Default or Event of Default for purposes of Section 315(b) (*Notice of Default*) and Section 315(c) (*Duties of the Trustee in Case of Default*) of the Trust Indenture Act;

(ii) to the extent permitted by the Trust Indenture Act, waives any and all claims against the Trustee for, agrees not to initiate a suit against the Trustee in respect of, and agrees that the Trustee shall not be liable for, any action that the Trustee takes, or abstains from taking, in either case in accordance with the exercise of the UK bail-in power by the relevant UK authority with respect to the Senior Notes;

(iii) agrees that, upon the exercise of any UK bail-in power by the relevant UK authority with respect to the Senior Notes,

a. the Trustee shall not be required to take any further directions from holders of the notes under Section 5.12 *(Control by Holders)* of the Indenture, which section authorises holders of a majority in aggregate outstanding principal amount of the notes to direct certain actions relating to the notes, and

b. the Indenture shall impose no duties upon the Trustee whatsoever with respect to the exercise of any UK bail-in power by the relevant UK authority. Notwithstanding the foregoing, if, following the completion of the exercise of the UK bail-in power by the relevant UK authority in respect of the Senior Notes, the Senior Notes remain outstanding (for example, if the exercise of the UK bail-in power results in only a partial write-down of the principal of such Senior Notes), then the Trustee's duties under the Indenture shall remain applicable with respect to the Senior Notes following such completion to the extent that we and the Trustee shall agree pursuant to a supplemental indenture.

(iv) shall be deemed to have (i) consented to the exercise of any UK bail-in power which may be imposed without any prior notice by the relevant UK authority of its decision to exercise such power with respect to the Senior Notes and (ii) authorised, directed and requested DTC and any direct participant in DTC or other intermediary through which it holds such Senior Notes to take any and all necessary action, if required, to implement the exercise of any UK bail-in power with respect to the Senior Notes as it may be imposed, without any further action or direction on the part of such holder.

For a discussion of certain risk factors relating to the UK bail-in power, see "*Risk Factors—Risks relating to the Senior Notes*".

Upon the exercise of the UK bail-in power by the relevant UK authority with respect to the Senior Notes, we shall provide a written notice to DTC as soon as practicable regarding such exercise of the UK bail-in power for purposes of notifying holders of such occurrence. We shall also deliver a copy of such notice to the Trustee for information purposes.

Events of Default and Defaults; Limitation of Remedies

Events of Default

An "Event of Default" with respect to the Senior Notes shall only result if:

- a court of competent jurisdiction makes an order for our winding up which is not successfully appealed within 30 days; or
- an effective shareholders' resolution is validly adopted for our winding up,

in each case other than under or in connection with a scheme of amalgamation or reconstruction not involving a bankruptcy or insolvency.

There are no other Events of Default under the Senior Notes. If an Event of Default with respect to Senior Notes occurs and is continuing, the Trustee or the holder or holders of at least 25% in aggregate principal amount of the outstanding Senior Notes may declare the principal amount of, and any accrued but unpaid interest on such Senior Notes to be due and payable immediately in accordance with the terms of the Indenture. However, after this declaration but before the Trustee obtains a judgment or decree for payment of money due, the holder or holders of a majority in aggregate principal amount of the outstanding Senior Notes may rescind the declaration of acceleration and its consequences, but only if all Events of Default have been remedied and all payments due, other than those due as a result of acceleration, have been made.

There are no other circumstances in which holders of Senior Notes or the Trustee may accelerate amounts to be paid in respect of the Senior Notes.

Default

A "Default" with respect to the Senior Notes shall result if:

- any installment of interest in respect of the Senior Notes is not paid on or before the relevant Interest Payment Date and such failure continues for 14 days; or
- all or any part of the principal amount of the Senior Notes is not paid when it otherwise becomes due and payable, whether upon redemption or otherwise, and such failure continues for 7 days.

If a Default occurs and is continuing, the Trustee may commence a proceeding for our winding up, but the Trustee may not declare the principal amount of any outstanding Senior Notes to be due and payable.

However and notwithstanding any other provisions, a failure to make any payment on the Senior Notes shall not be a Default if it is withheld or refused, upon independent counsel's advice delivered to the Trustee, in order to comply with any applicable fiscal or other law or regulation or order of any court of competent jurisdiction. In such case, the Trustee may require us to take any action which, upon independent counsel's advice delivered to the Trustee, is appropriate and reasonable in the circumstances (including proceedings for a court declaration), in which case we shall immediately take and expeditiously proceed with the action and shall be bound by any final resolution resulting therefrom. If any such action results in a determination that the relevant payment can be made without violating any applicable law, regulation or order then the payment shall become due and payable on the expiration of the applicable 14-day or seven-day period after the Trustee gives written notice to us informing us of such determination.

Upon the occurrence of any Event of Default or Default, we shall give prompt written notice to the Trustee. In accordance with the Indenture, the Trustee may proceed to protect and enforce its rights and the rights of the holders of the Senior Notes whether in connection with any breach by us of our obligations under the Senior Notes, the Indenture or otherwise, including by judicial proceedings, provided that we shall not, as a result of any such action by the Trustee, be required to pay any amount representing or measured by reference to principal or interest on the Senior Notes prior to any date on which the principal of, or any interest on, the Senior Notes would have otherwise been payable.

Other than the limited remedies specified above, no remedy against us shall be available to the Trustee or the holders of the Senior Notes whether for the recovery of amounts owing in respect of such Senior Notes or under the Indenture or in respect of any breach by us of our obligations under the Indenture or in respect of the Senior Notes, except that the Trustee and the holders shall have such rights and powers as they are entitled to have under the Trust Indenture Act of 1939 (the "Trust Indenture Act"), including the Trustee's prior lien on any amounts collected following a Default or Event of Default for payment of the Trustee's fees and expenses, and provided that any payments on the Senior Notes are subject to the ranking provisions set forth in the Indenture.

Notwithstanding any contrary provisions, nothing shall impair the right of a holder, absent the holder's consent, to sue for any payments due but unpaid with respect to the Senior Notes.

The provisions described under "*Description of Debt Securities—Events of Default and Defaults; Limitation of Remedies*" in the accompanying prospectus do not apply to the Senior Notes.

Payment of Additional Amounts

The government of the United Kingdom or any political subdivision or any authority thereof or therein having the power to tax may require us to withhold or deduct amounts from payments on the Senior Notes for taxes or other governmental charges. If such a withholding or deduction is required, we may be required, subject to certain exceptions, to pay additional amounts such that the net amount paid to holders of the Senior Notes, after such deduction or withholding, equals the amount that would have been payable had no such withholding or deduction been required ("Additional Amounts"). For more information on Additional Amounts and the situations in which we must pay Additional Amounts, see "*Description of Debt Securities—Additional Amounts*" in the accompanying prospectus.

Whenever in this prospectus supplement there is mentioned, in the context of the Senior Notes, the payment of the principal, premium, if any, or interest on or in respect of any Senior Note, such mention shall be deemed to include mention of the payment of Additional Amounts referred to above and further described under "*Description of Debt Securities—Additional Amounts*" in the accompanying prospectus, to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof pursuant to the provisions of the Indenture and as if express mention of the payment of Additional Amounts (if applicable) were made in any provisions hereof where such express mention is not made.

Noteholder's Waiver of Right to Set-Off

By acquiring a Senior Note, each holder (and the Trustee acting on behalf of the holders) will be deemed to have waived to the fullest extent permitted by law any right of set-off, counterclaim or combination of accounts with respect to such Senior Note or the Indenture (or between our obligations under or in respect of any Senior Note and any liability owed by a holder) that they (or the Trustee acting on their behalf) might otherwise have against us, whether before or during our winding-up, liquidation or administration. Notwithstanding the above, if any such rights and claims of any such holder (or the Trustee acting on behalf of such holders) against us are discharged by set-off, such holder (or the Trustee acting on behalf of such holders) will immediately pay an amount equal to the amount of such discharge to us or, in the event of a winding-up, liquidation or administration, our liquidator or administrator (or other relevant insolvency official), as the case may be, to be held on trust for senior creditors, and until such time as payment is made will hold a sum equal to such amount on trust for senior creditors, and accordingly such discharge shall be deemed not to have taken place.

Trustee; Direction of Trustee

Our obligations to indemnify the Trustee in accordance with Section 6.07 of the Indenture shall survive the exercise of the UK bail-in power by the relevant UK authority with respect to the Senior Notes.

By its acquisition of Senior Notes, each holder (including each beneficial holder) of the Senior Notes acknowledges and agrees that, upon the exercise of any UK bail-in power by the relevant UK authority, (a) the Trustee shall not be required to take any further directions from holders of the Senior Notes under Section 5.12 (*Control by Holders*) of the Indenture, which authorises holders of a majority in aggregate outstanding principal amount of the Senior Notes to direct certain actions relating to the Senior Notes, and (b) neither the Base Indenture nor the Supplemental Indenture shall impose any duties upon the Trustee whatsoever with respect to the exercise of any UK bail-in power by the relevant UK authority. Notwithstanding the foregoing, if, following the completion of the exercise of the UK bail-in power by the relevant UK authority, the Senior Notes remain outstanding (for example, if the exercise of the UK bail-in power results in only a partial write-down of the principal of the Senior Notes), then the Trustee's duties under the Indenture shall remain applicable with respect to the Senior Notes following such completion to the extent that we and the Trustee shall agree pursuant to a supplemental indenture or an amendment to the Indenture.

In addition to the foregoing, the Trustee may decline to act or accept direction from holders unless it receives written direction from holders representing a majority in aggregate principal amount of the Senior Notes and security and/or indemnity satisfactory to the Trustee in its sole discretion. The Indenture shall not be deemed to require the Trustee to take any action which may conflict with applicable law, or which may be unjustly prejudicial to the holders not taking part in the direction, or which would subject the Trustee to undue risk or for which it is not indemnified to its satisfaction in its sole discretion.

The Trustee makes no representations regarding, and shall not be liable with respect to, the information set forth in this prospectus supplement.

See "*—Events of Default and Defaults; Limitation of Remedies*" above for a description of the Trustee's procedures and remedies available in connection with an Event of Default or Default.

Notices

All notices regarding the Senior Notes will be deemed to be validly given if sent by first-class mail to the holders of the Senior Notes at their addresses recorded in the register.

Until such time as any definitive securities are issued, there may, so long as any Global Notes representing the Senior Notes are held in their entirety on behalf of DTC, be substituted for such notice by first-class mail the delivery of the relevant notice to DTC for communication by them to the holders of the Senior Notes, in accordance with DTC's applicable procedures. Neither the failure to give any notice to a particular holder, nor any defect in a notice given to a particular holder, will affect the sufficiency of any notice given to another holder.

Notices to be given by any holders of the Senior Notes to the Trustee shall be in writing to the Trustee at its corporate trust office. While any of the Senior Notes are represented by a Global Note, such notice may be given by any holder to the Trustee through DTC in such manner as DTC may approve for this purpose.

Subsequent Holders' Agreement

Holders of the Senior Notes that acquire the Senior Notes in the secondary market shall be deemed to acknowledge, agree to be bound by and consent to the same provisions specified herein to the same extent as the holders and beneficial owners of the Senior Notes that acquire the Senior Notes upon their initial issuance, including, without limitation, with respect to the acknowledgement and agreement to be bound by and consent to the terms of the Senior Notes related to the UK bail-in power.

Governing Law

The Senior Notes and the Indenture will be governed by and construed in accordance with the laws of the State of New York.

Listing

We intend to apply for the listing of the Senior Notes on the New York Stock Exchange in accordance with its rules.

Exhibit 4.12



NatWest Group plc
Head Office
Gogarburn
175 Glasgow Road
Edinburgh
EH12 1HQ

30 September 2022

Strictly Private and Confidential

Roisin Jane Catherine Donnelly

Dear Roisin

Non-executive director appointment letter

This letter sets out the terms of your appointment as a non-executive director of the following companies with effect from 1 October 2022:

(i) NatWest Group plc (company number SC045551) ("NWG");
(ii) NatWest Holdings Limited (company number 10142224) ("NWH");
(iii) National Westminster Bank Plc (company number 00929027) ("NWB"); and
(iv) The Royal Bank of Scotland plc (company number SC083026) ("RBS")

(together the "Companies").

The term of your appointment will commence on the aforementioned effective date and extend to NWG's next Annual General Meeting and thereafter will be subject to re-election as described below. It is agreed that this is a contract for services and not a contract of employment.

1. Appointment

Your appointment is subject to the articles of association of the Companies and may be terminated on the written notice of either you or the Companies as described below.

You will be required to stand for re-election by shareholders at each Annual General Meeting of each of the Companies (as applicable). Continuation of your appointment is also contingent on satisfactory performance and any relevant statutory provisions relating to the removal of a director.

Your appointment is also subject to the Board Appointment Policy, which states that non-executive directors are appointed for an initial term of 3 years, subject to annual re-election by shareholders. At the end of their initial term, non-executive directors are subject to a formal assessment by the Group Nominations & Governance Committee. Such assessment will include detailed discussion on performance, time commitment and experience.

After such formal assessment, non-executive directors may then serve a second 3 year term, provided they are happy to do so and if their performance has been satisfactory. A second formal review will then take place at the end of the second 3 year term and a non-executive director may then be invited to serve beyond six years, up to an overall maximum tenure of nine years.

Under the UK Corporate Governance Code 2018, a directors' tenure is calculated with reference to the date of first appointment. Accordingly, 1 October 2022 will be treated as your date of appointment for the purposes of the Board Appointment Policy.

2. Termination

Your appointment may be terminated by either you or the Companies giving written notice to the other, such notice to take immediate effect.

On termination of your appointment you shall, at the request of the Companies, resign as a director of the Companies.

No compensation or payment in lieu of notice will be payable upon termination of your appointment.

3. Time Commitment

You will devote such time as is necessary to fulfil your duties which include preparation for and attendance at the Board meetings of the Companies and committee meetings (as applicable), Annual General Meetings (as applicable) and any other General Meetings of the Companies and the annual Board strategy offsite.

By accepting this appointment, you have confirmed that you are able to allocate sufficient time to meet the requirements of your role.

4. Role

Your principal responsibilities and duties are set out in your role profile, as amended from time to time. A copy of your role profile as at 1 October 2022 is attached.

Non-executive directors have the same legal responsibilities to the Companies as any other director and you should have particular regard to the duties set out in the Companies Act 2006 (the "2006 Act"). This includes the general duties of directors as set out in Part 10, Chapter 2 of the 2006 Act, including the duty to promote the success of the company:

"A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

a) the likely consequences of any decision in the long term,
b) the interests of the company's employees,

c) the need to foster the company's business relationships with suppliers, customers and others,
d) the impact of the company's operations on the community and the environment,
e) the desirability of the company maintaining a reputation for high standards of business conduct, and
f) the need to act fairly as between members of the company."

You will be required to exercise relevant powers in accordance with the Companies' articles of association and in accordance with relevant policies in internal control frameworks.

5. Regulatory Requirements

Under the Senior Managers' Regime which was introduced to strengthen individual accountability in banking, certain non-executive director roles are classified as Senior Manager Functions and require prior regulatory approval. Other non-executive director positions must be notified to the regulator but do not require prior approval. Your role profile, as amended from time to time, will either (i) contain details of your Senior Manager Functions; or (ii) reflect your status as a Notified Non-executive Director.

It is a condition of your appointment that you comply with all applicable regulatory requirements, including but not limited to complying with the PRA and FCA Conduct Rules, as they apply from time to time. Further details are available on request from the Chief Governance Officer and Company Secretary.

It is also a condition of your appointment that you remain fit and proper to perform the role of a non-executive director and any applicable Senior Manager Functions in line with the PRA and FCA's regulatory requirements and that you report any matter that may impact your ongoing fitness and propriety promptly to the Companies and the FCA and PRA.

6. Remuneration

As a non-executive director you will be paid a fee agreed by the Group Chairman, Group Chief Executive and Group Chief Financial Officer. The fee covers membership of all four Boards, plus the relevant fee(s) for any additional Committee membership(s) and/or any chair role(s) you may assume. Your remuneration will be reviewed annually.

You will be paid monthly and will be reimbursed for all reasonable and properly documented expenses you incur in performing your duties.

7. Outside Interests

It is accepted and acknowledged that you may have business interests other than those of the Companies and that you have declared any actual or potential conflicts of interest that are apparent at present.

The agreement of the Boards must be sought before you accept any additional commitments that might affect the time you are able to devote to your role as a non-executive director of the Companies. In particular, you must notify the Chief Governance Officer and Company Secretary as early as possible if you are contemplating any additional appointments.

Please note that there are regulatory limits imposed by the Capital Requirements Directive on the number of directorships you are able to hold. These limits are a total of either (1) one executive and two non-executive positions; or (2) four non-executive director positions, in both cases including your roles with the Companies. Directorships in organisations which do not pursue predominantly commercial objectives do not count; and executive or non-executive directorships within the same group of companies count as a single directorship. The regulator may, at its discretion, grant a waiver to enable one additional non-executive position to be held. The Chief Governance Officer and Company Secretary monitors compliance with these regulatory limits and will be happy to discuss your own situation with you.

In the event that you become aware of any actual or potential conflicts of interest (including any relevant interests in transactions), these should be disclosed to the Chief Governance Officer and Company Secretary as soon as they are apparent to you. This is to enable such conflicts to be authorised or noted, as applicable, by the Boards in accordance with the 2006 Act.

Further details are set out in the Directors' Conflicts of Interest Policy, a copy of which is attached to this letter.

8. Confidentiality and return of and access to information

You acknowledge that all information acquired during your appointment is confidential to the Companies and should not be released, disclosed or communicated, either during your appointment or following termination of your appointment to third parties without prior written clearance from the Boards.

You acknowledge the need to hold and retain the Companies' information (in whatever format it is received) under appropriately secure conditions.

As a director of the Companies, you will frequently be in possession of price sensitive information and you should avoid making any statements that might risk disclosure of unpublished price sensitive information.

Upon termination of your appointment (for whatever reason), you shall deliver to the Companies all documents, records, papers or other property which may be in your possession or under your control, and which relate in any way to the business affairs of the Companies, and you shall not retain any copies thereof.

Please contact the Chief Governance Officer and Company Secretary if you subsequently require access to information. The Companies will seek to accommodate all reasonable requests for information, subject to any legal or regulatory obligations or restrictions that may prohibit them from doing so.

9. Review Process

Your performance as a non-executive director will be subject to review annually as part of the Board evaluation exercise, which reviews the performance of individual directors, each Board as a whole and its Committees. If, in the interim, there are any matters that cause you concern about your role, you should discuss them with the Chairman as soon as is appropriate.

10. Insurance

Subject to legislative provisions, you will be entitled to be indemnified out of the assets of NWG against all costs and liabilities incurred by you in the execution of your duties.

In addition, NWG has in place directors' and officers' liability insurance. It is intended to maintain such cover for the full term of your appointment.

11. Independent Professional Advice

Should a situation arise when you consider that you need to take independent professional advice in relation to your duties as a director, you should first discuss the situation with the Chief Governance Officer and Company Secretary. The reasonable costs of any independent advice obtained will be reimbursed by the Companies.

12. Dealing in Securities / Investments

As a director of the Companies, you are subject to the NWG Personal Account Dealing ('PAD') Policy and you cannot deal in NWG securities outside of certain scheduled 'Open Windows' (which are periods which coincide with the announcement of NWG results) or at any time while you are in possession of 'inside information'. NWG securities are broadly defined to include shares or debt instruments of an issuing entity, or derivatives or other financial instruments linked to any such shares or debts.

You and your 'connected persons' are also required to obtain permission before dealing on your 'own account' in 'NWG securities'. A copy of the PAD Policy is available on the Diligent resources portal, along with further details of your obligations and the associated disclosure requirements.

13. Data Protection

The Companies will collect, hold and process various types of personal information about you in accordance with the Privacy Notice for non-executive directors, a copy of which is attached to this letter.

You shall at all times comply with the Privacy and Client Confidentiality policy, a copy of which is available on the Diligent resources portal. The Companies may change their policies at any time and will publish any changes on the Diligent resources portal.

14. Governing Law

Your engagement with the Companies is governed by and shall be construed in accordance with the law of Scotland and your engagement shall be subject to the jurisdiction of the Scottish courts.

Please do not hesitate to contact me if you have any questions in relation to this letter. This letter has been sent to you in duplicate. Please sign and date both copies, retaining one copy for your records and returning the other to me at the above address.

Yours sincerely

/s/ Jan Cargill
Jan Cargill
Chief Governance Officer and Company Secretary
For and on behalf of the Companies

/s/ Roisin Donnelly
Roisin Donnelly

Date: 30/9/22

Enclosures:
Non-executive director role profile
Directors' Conflicts of Interest Policy
Privacy Notice



STANDARD TERMS AND CONDITIONS OF NON-EXECUTIVE DIRECTORS

The standard terms and conditions of non-executive directors of:-

1. NatWest Group plc;
2. The Royal Bank of Scotland plc;
3. National Westminster Bank Plc; and
4. NatWest Holdings Limited

(together "the Companies") are as follows:-

1. Appointment

Each director is required to stand for re-election by shareholders at each Annual General Meeting of each of the Companies, where applicable. A director's appointment is also contingent on satisfactory performance.

All non-executive directors are appointed for an initial term of 3 years (subject to annual re-election in line with the UK Corporate Governance Code), at the end of which the director is subject to a formal assessment by the Group Nominations & Governance Committee. The director may then serve a second 3 year term if his or her performance has been satisfactory. A second formal review takes place at the end of the second 3 year term and a non-executive director may then be invited to serve beyond six years, up to an overall maximum tenure of nine years.

2. Termination

A director's appointment may be terminated by either the director or the Companies giving written notice to the other, such notice to take immediate effect.

In the event that a director's re-election is not approved by shareholders, his or her appointment will terminate automatically with immediate effect.

3. Time Commitment

Directors are required to devote such time as is necessary to fulfil their roles including preparation for and attendance at the board meetings of the Companies, Annual General and any other General Meetings of the Companies, and board strategy sessions.

4. Role

Principal responsibilities and duties are set out in each director's role profile. Directors must also have regard to the general duties of directors as set out in the Companies Act 2006, including the duty to promote the success of the company.

5. Regulatory Requirements

Directors must comply with all applicable regulatory requirements and must remain fit and proper to perform the role of a non-executive director and any applicable Senior Manager Functions in line with the PRA and FCA's regulatory requirements. Directors must report any matter that may impact his or her ongoing fitness and propriety promptly to the Companies and the regulators.

6. Remuneration

Non-executive directors will be paid a fee in accordance with the Directors' Remuneration Policy approved by shareholders from time to time. The fee covers membership of all four Boards, plus the relevant fee(s) for any additional committee membership(s) and/or chairmanship(s) the director may assume.

Directors will be reimbursed for all reasonable and properly documented expenses incurred in performing his or her duties.

7. Outside Interests

Directors need to seek the agreement of the boards before accepting any additional commitments that might affect the time he or she is able to devote to his or her role. Directors must notify the Chief Governance Officer & Company Secretary as early as possible if they are contemplating any additional appointments.

Directors must also comply with the regulatory limits imposed by the Capital Requirements Directive on the number of directorships they are able to hold.

In the event that a director becomes aware of any actual or potential conflicts of interest (including any relevant interests in transactions), these should be disclosed to the Chief Governance Officer & Company Secretary as soon as they are apparent to the director. This is to enable such conflicts to be authorised or noted, as applicable, by the boards in accordance with the Companies Act 2006.

8. Confidentiality and return of and access to information

All information acquired during a director's appointment is confidential to the Companies and should not be released, disclosed or communicated, either during the director's appointment or following termination of the appointment to third parties without prior written clearance from the board.

Directors are required to hold and retain the Companies' information securely and, on termination of his or her appointment, must return all documents, records, papers or other property which relate in any way to the business affairs of the Companies.

9. Review Process

The performance of individual directors is reviewed annually as part of the board evaluation exercise, which reviews the performance of individual directors, the board as a whole and its committees.

10. Insurance

Subject to legislative provisions, directors will be entitled to be indemnified out of the assets of NatWest Group against all costs and liabilities incurred by them in the execution of their duties.

NatWest Group has in place directors' and officers' liability insurance and intends to maintain such cover for the full term of directors' appointments.

11. Independent Professional Advice

Directors may take independent professional advice in relation to their duties with the reasonable costs of any independent advice obtained being reimbursed by the Companies.

12. Dealing in Securities / Investments

Directors are subject to the NatWest Group Personal Account Dealing Policy in respect of any dealing in NatWest Group securities.

Exhibit 4.17

Certain information has been omitted from the exhibit because it is both (i) not material and (ii) of the type that the registrant customarily and actually treats as private or confidential. The omissions have been indicated by ("[***]")

Dated 26 November 2009

THE ROYAL BANK OF SCOTLAND GROUP PLC

and

THE COMMISSIONERS OF HER MAJESTY'S TREASURY

ACQUISITION AND CONTINGENT CAPITAL AGREEMENT

Slaughter and May
One Bunhill Row
London EC1Y 8YY
(NV/PIRD)
CD092930118

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THIS AGREEMENT is dated 26 November 2009 between:

(1) **THE ROYAL BANK OF SCOTLAND GROUP PLC**, a company incorporated in Scotland with registered number 45551 and whose registered office is at 36 St Andrew Square, Edinburgh EH2 2YB (the "**Company**"); and

(2) **THE COMMISSIONERS OF HER MAJESTY'S TREASURY** of 1 Horse Guards Road, London SW1A 2HQ ("**HM Treasury**").

WHEREAS:

(A) HM Treasury has agreed to acquire, and the Company has agreed to allot and issue to HM Treasury, the Acquisition Shares (as defined in this Agreement) on the terms and subject to the conditions set out in this Agreement.

(B) HM Treasury has agreed to subscribe for, and the Company has agreed to allot and issue to HM Treasury, the Contingent Capital Shares (as defined in this Agreement) on the terms and subject to the conditions set out in this Agreement.

NOW THEREFORE IT IS AGREED as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement (including the Recitals):

"ABN AMRO"	means ABN AMRO Holding N.V.;
"ABN AMRO Accounts"	means the audited consolidated accounts of ABN AMRO and its subsidiary undertakings for the three financial years ended 31 December the last of which occurs immediately preceding the date of this Agreement (including, without limitation, the related directors' and auditors' reports, the consolidated income statement, the consolidated balance sheet, the consolidated cashflow statement, the consolidated statement of changes in equity and all related notes);
"ABN AMRO Group"	means ABN AMRO Holding N.V. (which will be renamed RBS Holdings N.V. on or around separation, being the transfer of the Dutch State acquired businesses in the ABN AMRO Group out of the ABN AMRO Group) and its direct and indirect subsidiaries and subsidiary undertakings;
"ABN Securities"	means:
	(i) the 50,000,000 5.9 per cent. non-cumulative

guaranteed trust preferred securities issued by ABN AMRO Capital Funding Trust V;

(ii) the 8,000,000 6.25 per cent. non-cumulative guaranteed trust preferred securities issued by ABN AMRO Capital Funding Trust VI; and

(iii) the 66,000,000 6.08 per cent. non-cumulative guaranteed trust preferred securities issued by ABN AMRO Capital Funding Trust VII,

and any other security issued by any subsidiary of RFS Holdings BV to the extent any deferral of any dividend or other distribution, interest or coupon payment or payment of a similar nature (whether in cash or otherwise) would prevent the payment of any dividend or other distribution, interest or coupon payment or payment of a similar nature (whether in cash or otherwise) to the extent required (in the reasonable opinion of the Company) to achieve segregation, separation (being the transfer of the Dutch State acquired businesses in the ABN AMRO Group out of the ABN AMRO Group) and the capital restructuring of RFS Holdings BV;

"Accession Agreement" means the accession agreement between HM Treasury and RBS in respect of RBS's participation in HM Treasury's Asset Protection Scheme, dated on or about the date of this Agreement;

"Accession Date" has the meaning given in the Accession Agreement;

"Accession Documents" means the Accession Agreement and the Tax Assets Agreement;

"Accounts" means the audited consolidated accounts of the Group for each of the three financial years ended 31 December the last of which occurs immediately preceding the date of this Agreement (in the case of the Acquisition) or the relevant Contingent Capital Warranty Date (in the case of any Contingent Capital Subscription) (including, without limitation, the related directors' and auditors' reports, the consolidated income statement, the consolidated balance sheet, the consolidated cashflow statement, the consolidated statement of recognised income and expense and

	all related notes);
"Accounts Date"	means (in the case of the Acquisition) 31 December 2008 and (in the case of any Contingent Capital Subscription) the last date prior to the relevant Contingent Capital Warranty Date in respect of which audited accounts for the Group were published;
"Accounting Period"	has the meaning given in the Tax Assets Agreement;
"Acquisition"	means the acquisition by HM Treasury of the Acquisition Shares on the terms and subject to the conditions of this Agreement;
"Acquisition Announcement"	has the meaning given in clause 8.2(B)(i);
"Acquisition B Shares"	means 51,000,000,000 B Shares;
"Acquisition Date"	means the date on which the Acquisition occurs, being the fifth Business Day following the Condition Precedent Date or such other date as HM Treasury and the Company may agree;
"Acquisition Price"	means the sum of £25,500,000,000.50;
"Acquisition Shares"	means the Acquisition B Shares and the Dividend Access Share;
"Acquisition Warranty Date"	means the Condition Precedent Date and the Acquisition Date;
"Adjusted First Payment Date"	means 31 March 2010 (or, if such date is not a Business Day, the next preceding Business Day);
"Adverse Interest"	means any option, lien, mortgage, charge, equity, trust, any other right or interest of any third party and any other encumbrance of any kind;
"Affiliate"	has the meaning given in the APS Conditions;
"Agreed B Shares Amount"	has the meaning given in clause 6.2 or 6.3 (as the case may be);
"Agreed Tax Assets Amount"	has the meaning given in clause 6.2 or 6.3 (as the case may be);

"Alternative Coupon Satisfaction Mechanism"	means a mechanism in the terms of issue of any security issued by a Group Company pursuant to which the Group Company is obliged to issue ordinary shares, preference shares or an instrument that is treated as forming part of the relevant Group Company's innovative tier 1 capital (as interpreted in accordance with GENPRU) if the Group Company does not pay a coupon on such security in cash;
"Annual Premium"	has the meaning given in clause 6.1(A);
"Applicable Law"	has the meaning given in the APS Conditions;
"Appropriate Person"	means the Auditors or such other firm of accountants of international standing with experience of the calculation of regulatory capital ratios under the FSA Rules as may be appointed by the Company with the consent of HM Treasury (such consent not to be unreasonably withheld or delayed);
"APS"	means the UK Government's asset protection scheme on the terms and conditions set out in the APS Conditions;
"APS Conditions"	has the meaning given to the term "Conditions" in the Accession Agreement;
"Articles"	means the articles of association of the Company;
"Auditors"	means Deloitte LLP;
"Authority"	has the meaning given in the APS Conditions;
"BIPRU"	means the Prudential Sourcebook for Banks, Building Societies and Investment Firms, forming part of the FSA Rules;
"Board"	means the Board of Directors of the Company or a duly authorised committee thereof;
"Bonus Issue"	has the meaning given in the Dividend Access Share Terms;
"B Share Terms"	means the terms of the B Shares set out in Schedule 6;

"B Shares"	means the Series 1 Class B Shares of 1 penny each in the capital of the Company;
"B Shares Determination Date"	means: (i) in relation to the First Payment Date, the First B Shares Determination Date; and (ii) in relation to any other Payment Date, the 14 December which immediately precedes such Payment Date (or, if such date is not a Business Day, the immediately preceding Business Day);
"B Shares Shortfall Amount"	has the meaning given in clause 6.2 or 6.3 (as the case may be);
"Business Day"	means any day (other than a Saturday or Sunday) on which clearing banks are open for a full range of banking transactions in London;
"CA 1985"	means the Companies Act 1985;
"CA 2006"	means the Companies Act 2006;
"Capital Resources Requirement"	has the meaning given in the FSA Rules;
"CashboxCo"	means Aonach Mor Limited, a company incorporated in England with registered number 7079298 and having its registered office at 1 Princes Street, London EC2R 8BP;
"Cashbox Documents"	mean the Subscription and Transfer Agreement and the Cashbox Option Agreement;
"Cashbox Option Agreement"	means the option agreement, in a form acceptable to HM Treasury, acting reasonably, to be entered into between CashboxCo, HM Treasury and the Company providing a put option in relation to the CashboxCo Ordinary Shares granted by the Company in favour of HM Treasury and a call option in relation to the CashboxCo Ordinary Shares granted by HM Treasury in favour of the Company;
"CashboxCo Ordinary Shares"	means the ordinary shares in the capital of CashboxCo to be issued to HM Treasury in terms of the Cashbox Option Agreement;

"CashboxCo Preference Shares"	means the redeemable preference shares in the capital of CashboxCo to be issued to HM Treasury in terms of the Subscription and Transfer Agreement;
"Circular"	means the circular, in a form acceptable to HM Treasury, to be sent to Shareholders giving details of the APS, the Acquisition and the Contingent Capital Commitment and containing notice of the GM;
"Claims"	means any and all claims, actions, liabilities, demands, proceedings, investigations, judgments or awards whatsoever (and in each case whether or not successful, compromised or settled and whether joint or several) threatened, asserted, established or instituted against any Indemnified Person and "**Claim**" shall be construed accordingly;
"Companies Acts"	means the CA 1985 and/or the CA 2006 as the context requires;
"Condition Precedent Date"	means the first date on which all of the conditions set out in clause 2.1 are satisfied, waived or treated as waived in accordance with clause 2;
"Consideration Shares"	means the CashboxCo Ordinary Shares and the CashboxCo Preference Shares;
"Contingent Capital Amount"	means, in respect of each Contingent Capital Subscription, the Contingent Capital Price multiplied by the Relevant Contingent Capital Number;
"Contingent Capital Commitment"	has the meaning given in clause 5.1;
"Contingent Capital Completion Date"	has the meaning given in clause 5.5(B)(ii)(b);
"Contingent Capital Expiry Date"	means the date on which the Contingent Capital Period ends;
"Contingent Capital Notice"	has the meaning given in clause 5.5(A)(i);
"Contingent Capital Notice Date"	means the date on which each Contingent Capital Notice is delivered to HM Treasury;

"Contingent Capital Period"	means the period commencing on the Acquisition Date and ending on the earliest of (i) the Scheduled End Date, (ii) the Final Contingent Capital Termination Date and (iii) the occurrence of a Termination Event;
"Contingent Capital Price"	means the price of 50 pence per Contingent Capital Share, as the same may be adjusted in accordance with paragraph 4(l) of the B Share Terms;
"Contingent Capital Shares"	means, subject to clause 5.10(B), up to 16,000,000,000 B Shares;
"Contingent Capital Subscription"	means a subscription for Contingent Capital Shares by HM Treasury pursuant to the Contingent Capital Commitment;
"Contingent Capital Termination Notice"	has the meaning given in clause 5.10(A);
"Contingent Capital Termination Shares"	has the meaning given in clause 5.10(A);
"Contingent Capital Warranties"	means the representations, warranties and undertakings contained in Schedule 4;
"Contingent Capital Warranty Date"	means each Contingent Capital Notice Date and each Contingent Capital Completion Date;
"Convertible Preference Shares"	means (i) the US$1,000,000,000 Non-cumulative Convertible Dollar Preference Shares and (ii) the £200,000,000 Non-cumulative Convertible Sterling Preference Shares (as such terms are defined in the Articles as at the date of this Agreement);
"Core Tier 1 Capital"	means the core tier 1 capital of the Regulatory Group calculated in accordance with Chapter 2 of GENPRU and Chapter 8 of BIPRU, in each case so far as relevant and as supplemented by the guidance set out in the letter of 1 May 2009 from the FSA to the British Bankers' Association on the definition of core tier 1 capital or any subsequent letter issued in replacement thereof or in replacement of any replacement letter;
"Core Tier 1 Ratio"	means the ratio of (i) Core Tier 1 Capital to (ii) Risk Weighted Assets determined on a consolidated basis and calculated consistently with any requirements of the FSA from time to

	time, expressed as a percentage, and as published in the most recent annual or semi-annual consolidated financial statements prepared by the Group or as otherwise disclosed to HM Treasury by the Company or any member of the Group (and, where disclosed to HM Treasury, such percentage having been verified by an Appropriate Person to a standard equivalent to that used in connection with the Accounts);
"CREST"	means the relevant system (as defined in the Regulations) in respect of which Euroclear UK and Ireland Limited is the Operator (as defined in the Regulations);
"CSA"	means the consortium and shareholders' agreement entered into on 28 May 2007 between the Company, Banco Santander, SA, Fortis NV and Fortis SA/NV and RFS Holdings BV as supplemented and amended by the Supplemental Consortium and Shareholders' agreement dated 17 September 2007 (between the same parties) and the amendment agreement dated 26 August 2008 (between the same parties) and the deed of accession executed by The State of the Netherlands (amongst others) on 24 December 2008;
"Deductions from Tier 1 Capital"	means the deductions from Tier 1 Capital required to made in accordance with GENPRU (as more particularly set out in the table in GENPRU 2 Annex 2) and as applied on a consolidated basis in accordance with BIPRU;
"Deductions from Total Capital"	means all deductions from total capital required to made in accordance with GENPRU (as more particularly set out in the table in GENPRU 2 Annex 2) and as applied on a consolidated basis in accordance with BIPRU;
"Directors"	means the directors of the Company from time to time;
"Disputes"	has the meaning given in clause 15.2(A);
"Dividend Access Share"	means the Series 1 Dividend Access Share of 1 penny in the capital of the Company;

"Dividend Access Share Terms"	means the terms of the Dividend Access Share set out in Schedule 7;
"DTRs"	means the Disclosure and Transparency Rules, as amended from time to time, made by the FSA pursuant to Part VI of FSMA;
"EC Treaty"	means the consolidated version of the Treaty establishing the European Community;
"End Date"	means the last day of the Contingent Capital Period;
"Fallback B Shares Amount"	has the meaning given in clause 6.2 or 6.3 (as the case may be);
"Fallback B Shares Subscription Amount"	has the meaning given in clause 6.2 or 6.3 (as the case may be);
"Final Contingent Capital Termination Date"	has the meaning given in clause 5.10(A);
"First Annual Premium"	has the meaning given in clause 6.2;
"First B Shares Determination Date"	means the date falling two Business Days after the First Reference Date;
"First Contingent Capital Subscription"	means the first occasion of the issue of Contingent Capital Shares to HM Treasury on a Contingent Capital Completion Date pursuant to a Contingent Capital Notice delivered by the Company to HM Treasury in accordance with clause 5.5;
"First Payment Date"	has the meaning given in clause 6.1(B)(i);
"First Premium Period"	has the meaning given in the definition of "Premium Period" in this clause 1.1;
"First Reference Date"	means the later of: (i) 14 December 2009 (or, if such date is not a Business Day, the immediately preceding Business Day); and (ii) the date falling two Business Days after the date of this Agreement;
"Foreign Jurisdiction"	has the meaning given in clause 15.2(B);

"Foreign Proceedings"	has the meaning given in clause 15.2(B);
"Form of Proxy"	means the form of proxy, in a form acceptable to HM Treasury, acting reasonably, to be sent to Shareholders in connection with the GM;
"FSA"	means the Financial Services Authority as established under FSMA and any Successor Regulatory Body;
"FSA Rules"	means the rules and guidance made by the FSA under FSMA and set out in the Handbook, and includes any rules and guidance made by any Successor Regulatory Body;
"FSMA"	means the Financial Services and Markets Act 2000, including any regulations made pursuant thereto;
"GENPRU"	means the General Prudential Sourcebook for Banks, Building Societies, Insurers and Investment Firms forming part of the FSA Rules;
"GM"	means the general meeting of the Company to be convened at which the Resolutions are to be proposed, or any adjournment of it;
"Group"	means the Company and its subsidiary undertakings from time to time and "**Group Company**" means any of them (and, for the avoidance of doubt, references in this Agreement to the "Group", "Group Companies" and "members of the Group" include, without limitation ABN AMRO and each of its subsidiary undertakings);
"Guide to Banking Supervisory Policy"	means the Guide to Banking Supervisory Policy published by the FSA;
"Handbook"	means the FSA's handbook of rules and guidance, as amended and updated from time to time;
"HMRC"	means Her Majesty's Revenue and Customs;
"IFRS"	means International Financial Reporting Standards as adopted by the European Union;

"Indemnified Persons"	means: (i) The Commissioners of Her Majesty's Treasury; (ii) HM Treasury; (iii) the Treasury Solicitor; (iv) any entity to which HM Treasury novates its rights and obligations under this Agreement pursuant to clause 14.10; and (v) any person who is, on or at any time after the date of this Agreement, a director, officer, official, agent or employee of or under any person specified in paragraph (i), (ii), (iii) or (iv) above, and "**Indemnified Person**" shall be construed accordingly;
"Innovative Tier 1 Instrument"	means an instrument that is treated as forming part of the Company's innovative tier 1 capital and shall be interpreted in accordance with GENPRU or, in the case of any instruments issued prior to 31 December 2006, IPRU (Bank) or the Guide to Banking Supervisory Policy as in force at the time when the relevant Innovative Tier 1 Instrument was issued;
"Intellectual Property Rights"	means patents, trade marks, service marks, logos, get-up, trade names, rights in designs, copyright (including rights in computer software), internet domain names, moral rights, utility models, rights in know how, rights in databases and other intellectual property rights, in each case whether registered or unregistered and including applications for the grant of any such rights and all rights or forms of protection having equivalent or similar effect anywhere in the world;
"Interest Rate"	has the meaning given in the Tax Assets Agreement;
"Interim Accounts"	means the unaudited consolidated financial information for the Group in respect of the six month period ended 30 June 2009 (in the case of the Acquisition) or (in the case of any Contingent Capital Subscription) any unaudited consolidated

	financial information for the Group in respect of any six month period which has been published since the last Accounts Date;
"IPRU (Bank)"	means the Interim Prudential Sourcebook for Banks which forms or formed part of the Handbook;
"Listing Rules"	means the Listing Rules made by the FSA pursuant to section 73A of the FSMA, as amended from time to time;
"Losses"	means any and all loss, damage, cost, liability, demand, charge or expense (including legal fees), in each case whether joint or several, which any Indemnified Person may suffer or incur (including, but not limited to, all Losses suffered or incurred in investigating, preparing for or disputing or defending or settling any Claim and/or in establishing its right to be indemnified pursuant to clause 10 and/or in seeking advice regarding any Claim or in any way related to or in connection with the indemnity contained in clause 10) and "**Loss**" shall be construed accordingly;
"LSE"	means London Stock Exchange plc;
"Mandatory Securities"	means any securities issued by the Company or by any other Group Company (i) the terms of which do not provide for the Board or the board of directors of such other Group Company as the case may be to be able to elect not to pay a dividend or other distribution or make any interest or coupon payment or payment of a similar nature (whether in cash or otherwise, including pursuant to any Alternative Coupon Settlement Mechanism), or on which the Board may not, on or before the date on which payment falls to be made, elect not to pay such dividend or other distribution or make such interest or coupon payment or payment of a similar nature (whether in cash or otherwise, including pursuant to any Alternative Coupon Settlement Mechanism) or (ii) under which the Company or such Group Company is not legally permitted to stop paying dividends or distributions or making interest or coupon payments or payments of a similar nature (whether in cash or otherwise);

"Material Adverse Effect"	means an event has occurred or is reasonably likely to occur which has resulted in or may result in a material adverse change in or affecting the condition (financial, operational, legal or otherwise), profitability, prospects, solvency, business affairs or operations of the Group, taken as a whole, whether or not arising in the ordinary course of business;
"Material Subsidiaries"	means RBS, National Westminster Bank plc, Ulster Bank Limited, Citizens Financial Group, Inc., RBS Securities, Inc., RBS Insurance Group Limited and ABN AMRO Bank N.V. and such other subsidiary undertakings which, as at the relevant date, individually account for not less than ten per cent. of the net income (being net interest income and all other income net of fees payable) or net assets of the Group (each being a "**Material Subsidiary**");
"NFSA"	means the Netherlands Financial Supervision Act (*Wet Op Het Financieel Toezicht*);
"Non-Voting Deferred Shares"	means the non-voting deferred shares series B of 1 penny in the capital of the Company created or to be created on the Non-Voting Deferred Share Terms;
"Non-Voting Deferred Share Terms"	means the terms of the Non-Voting Deferred Shares set out in Schedule 10;
"Official List"	means the Official List maintained by the FSA in its capacity as UK Listing Authority;
"Ordinary Shares"	means ordinary shares of 25 pence each in the capital of the Company;
"Overall Financial Adequacy Rule"	has the meaning given in the FSA Rules;
"Parity Value"	has the meaning given in the Dividend Access Share Terms;
"Partial Contingent Capital Termination Date"	has the meaning given in clause 5.10(A);
"Payee"	has the meaning given in clause 7.3(C);
"Payer"	has the meaning given in clause 7.3(C);

"Payment Date"	has the meaning given in clause 6.1(B);
"Payment Proposal Notice"	means a notice in the form set out in Schedule 9;
"Permitted Oral Statement"	has the meaning given in clause 8.2(B)(iii);
"Permitted Statement"	has the meaning given in clause 8.2(B)(ii);
"Placing and Open Offer"	means the placing and open offer by the Company of 16,909,716,385 Ordinary Shares at 31.75 pence per Ordinary Share announced on 19 January 2009;
"Posting Date"	means the date on which the Company despatches the Circular to Shareholders and the date on which the Company despatches any Replacement Circular to Shareholders;
"Premium Amount"	has the meaning given in clause 6.1(C);
"Premium Period"	means: (i) the period of time which begins on (and includes) the Acquisition Date and ends on (but excludes) the first anniversary of the Acquisition Date (the "**First Premium Period**"); and (ii) each subsequent period of time which begins on (and includes) an anniversary of the Acquisition Date falling before the End Date and which ends on (but excludes) the next succeeding anniversary of the Acquisition Date;
"Previous Announcements"	means all documents issued and announcements made by or on behalf of the Company or any member of the Group through a Regulatory Information Service (including by way of a public regulatory filing) (i) since the relevant Accounts Date and on or before the date of this Agreement (in the case of clause 2.1(K) and in the case of the Warranties given on the date of this Agreement) or (ii) since the relevant Accounts Date and on or before the relevant Acquisition Warranty Date (in the case of the Warranties given on an Acquisition Warranty Date) or (iii) since the date of this Agreement and on or before the relevant Contingent Capital Notice Date (in the case of the Warranties given on a Contingent Capital Notice

	Date) or (iv) since the date of this Agreement and on or before the relevant Contingent Capital Completion Date (in the case of the Warranties given on a Contingent Capital Completion Date);
"Proceedings"	has the meaning given in clause 15.2(A);
"Prospectus Rules"	means the Prospectus Rules published by the FSA pursuant to section 73A of the FSMA, as amended from time to time;
"RBS"	means The Royal Bank of Scotland plc, a company incorporated in Scotland with registered number 90312 and having its registered office at 36 St Andrew Square, Edinburgh EH2 2YB;
"Reference Date"	means: (i) in relation to the First Payment Date, the First Reference Date; and (ii) in relation to any other Payment Date, the 14 September which immediately precedes such Payment Date (or, if such date is not a Business Day, the immediately preceding Business Day);
"Registrar"	means Computershare Investor Services PLC;
"Regulations"	means the Uncertificated Securities Regulations 2001;
"Regulatory Group"	means the Company, its subsidiary undertakings, participations, participating interests and any subsidiary undertakings, participations or participating interest held (directly or indirectly) by any of its subsidiary undertakings from time to time and any other undertakings from time to time consolidated with it under Chapter 8 of BIPRU and "**Regulatory Group Company**" means any of them;
"Regulatory Information Service"	has the meaning given in the Listing Rules;
"Relevant Annual Premium"	has the meaning given in clause 6.3;
"Relevant Contingent Capital Number"	means:
	(i) in respect of the First Contingent Capital

Subscription, 12,000,000,000 B Shares;

(ii) in respect of the Second Contingent Capital Subscription, 4,000,000,000 B Shares;

(iii) in respect of any Subsequent Contingent Capital Subscription, such number of B Shares as may be specified in accordance with clause 5.5(B), provided that it is not less than the greater of (i) 500,000,000 B Shares and (ii) the total number of Contingent Capital Shares in respect of which the Contingent Capital Commitment remains outstanding, and, together with the aggregate number of B Shares issued to HM Treasury pursuant to each previous Contingent Capital Subscription, is not more than the number of Contingent Capital Shares,

in each case subject to clauses 5.2(B) and 5.10(B);

"Relevant Cost" has the meaning given in clause 7.3(D);

"Relevant Documents" means the Circular, the Form of Proxy, and any announcement(s) made by any member of the Group in relation to the Acquisition or the Contingent Capital Commitment;

"Relevant Payment Date" has the meaning given in clause 6.3;

"Replacement Circular" means any circular, in a form acceptable to HM Treasury, produced as a replacement of the Circular or any Replacement Circular pursuant to Listing Rule LR10.5.2R;

"Representatives" has the meaning given in the APS Conditions;

"Resolutions" means the resolutions, in a form acceptable to HM Treasury, acting reasonably:

(i) to amend the Articles to remove the Company's authorised share capital and create the B Shares, the Dividend Access Share and Non-Voting Deferred Shares;

(ii) to authorise the Directors to allot under Section 551 of CA 2006 (a) the Acquisition B Shares, the Contingent Capital Shares and the Dividend Access Share and such further

nominal amount of B Shares as the Company, having consulted with HM Treasury, considers sufficient to allow for the issue of further such B Shares under the B Share Terms, the Dividend Access Share Terms and, to the extent the Contingent Capital Premium is settled in B Shares, to allow for the issue of such further B Shares and (b) the Ordinary Shares which may be issued on a conversion of the B Shares into Ordinary Shares and Non-Voting Deferred Shares;

(iii) to approve the entry into and performance by the Company of this Agreement for the purposes of Chapter 11 of the Listing Rules; and

(iv) to authorise the Directors to (a) apply such amount as the Directors may determine of the sums standing to the credit of any of the Company's distributable reserves, share premium account, merger reserve, capital redemption reserve or any reserve available for the purpose at the relevant time for the purposes of allotting B shares in connection with converting B shares into Ordinary Shares and/or allotting to the holders of the Dividend Access Share and/or B Shares additional B Shares in lieu of any dividend declared or proposed, in each case with authority to deal with fractional entitlements as the Directors think fit and (b) sub-divide and consolidate such amount of the Company's share capital as the Directors may determine (whether into shares of the same class and/or different classes) for the purposes of, or in connection with, converting the B Shares into Ordinary Shares and/or Non-Voting Deferred Shares,

to be proposed at the GM;

"Risk Weighted Assets" means the risk weighted assets of the Regulatory Group calculated on a consolidated basis in accordance with (i) the FSA Rules and, as appropriate, equivalent rules in other jurisdictions as assessed by the FSA from time to time and (ii) advanced prudential calculation approaches as permitted by the FSA by way of a waiver or measure taken by the FSA under regulations 2 and 3 of the Capital Requirements Regulations 2006 (SI 2006/3221);

"Scheduled End Date"	means the fifth anniversary of the Acquisition Date;
"SDRT"	means stamp duty reserve tax;
"Second Contingent Capital Subscription"	means the second occasion of the issue of Contingent Capital Shares to HM Treasury on a Contingent Capital Completion Date pursuant to a Contingent Capital Notice delivered by the Company to HM Treasury in accordance with clause 5.5;
"Securities Act"	has the meaning given in clause 14.12;
"Shareholders"	means holders of Ordinary Shares whose names are on the register of members of the Company as at the date of posting of the Circular;
"Signing Announcement"	has the meaning given in clause 8.2(B)(i);
"Specified Event"	means an event occurring or fact, matter or circumstance arising on or after the date of this Agreement and before the Acquisition Date (in the case of the Acquisition) or on or after a Contingent Capital Notice Date and before the related Contingent Capital Completion Date (in the case of any Contingent Capital Subscription), which: (i) if it had occurred or arisen before or at the date of this Agreement or before or at an Acquisition Warranty Date (in the case of the Acquisition) or before or at a Contingent Capital Warranty Date (in the case of any Contingent Capital Subscription); or (ii) if it had been known by the Directors before or at the date of this Agreement or before or at an Acquisition Warranty Date (in the case of the Acquisition) or before or at a Contingent Capital Warranty Date (in the case of any Contingent Capital Subscription), would have rendered any of the Warranties given on the date of this Agreement or to be given on an Acquisition Warranty Date (in the case of the Acquisition) or to be given on a Contingent Capital Warranty Date (in the case of any Contingent Capital Subscription) untrue, inaccurate or

	misleading in any respect on such date;
"Stamp Tax"	means any stamp, documentary, registration or capital duty or tax (including, without limitation, stamp duty, SDRT and any other similar duty or similar tax) and any fines, penalties and/or interest relating thereto;
"State Aid Commitment Deed"	means the State Aid commitment deed between HM Treasury and the Company dated on or around the date of this Agreement;
"Subscription and Transfer Agreement"	means the share subscription and transfer agreement, in a form acceptable to HM Treasury, acting reasonably, between CashboxCo, HM Treasury and the Company providing, amongst other things, for the transfer to the Company by HM Treasury (in its capacity as subscriber for the Consideration Shares) of the Consideration Shares;
"Subsequent Contingent Capital Subscription"	means the occasion of each issue of Contingent Capital Shares to HM Treasury on a Contingent Capital Completion Date pursuant to a Contingent Capital Notice delivered by the Company to HM Treasury in accordance with clause 5.5 following any Second Contingent Capital Subscription;
"Substantial Shareholder"	has the meaning given in the Listing Rules;
"Successor Regulatory Body"	means any statutory or other regulatory body that replaces the FSA as prudential regulator in the United Kingdom of the Regulatory Group;
"SUP"	means the Supervision sourcebook forming part of the FSA Rules;
"Tax" or **"Taxation"**	means all forms of taxation and statutory, governmental, state, provincial, local governmental or municipal impositions, duties, contributions and levies (including, for the avoidance of doubt, Stamp Tax), in each case in the nature of taxation, duty, contribution or levy, whether of the United Kingdom or elsewhere in the world whenever imposed and whether chargeable directly or primarily against or attributable directly or primarily to a Group Company or any other person and all penalties, charges, costs and interest relating thereto;

"Tax Asset"	has the meaning given in the Tax Assets Agreement;
"Tax Assets Agreement"	means the agreement entitled "Agreement to Forego Tax Reliefs in connection with an Acquisition and Contingent Capital Agreement" entered into between, inter alia, HM Treasury, The Commissioners for Her Majesty's Revenue and Customs, RBS, ABN AMRO Bank N.V. and the Company, dated on or about the date of this Agreement;
"Tax Assets Shortfall Amount"	has the meaning given in clause 6.2 or 6.3 (as the case may be);
"Tax Authority"	means any government, state, municipal, local, federal or other fiscal, revenue, customs or excise authority, body or official anywhere in the world having the power to impose, collect or administer any Tax or exercising a fiscal, revenue, customs or excise function with respect to Tax (including, without limitation, HMRC);
"Termination Event"	has the meaning given in Schedule 8;
"Tier 1 Capital"	means the tier 1 capital of the Regulatory Group calculated in accordance with Chapter 2 of GENPRU and Chapter 8 of BIPRU, in each case so far as relevant and as supplemented by any public written statement or guidance given by the FSA from time to time;
"Tier 1 Capital Ratio"	means the ratio of (i) Tier 1 Capital, less Deductions from Tier 1 Capital, to (ii) Risk Weighted Assets determined on a consolidated basis and calculated consistently with any requirements of the FSA from time to time, expressed as a percentage;
"Tier 2 Capital	means the tier 2 capital of the Regulatory Group calculated in accordance with Chapter 2 of GENPRU and Chapter 8 of BIPRU, in each case so far as relevant and as supplemented by any public written statement or guidance given by the FSA from time to time;
"Tier 3 Capital"	means the tier 3 capital of the Regulatory Group calculated in accordance with Chapter 2 of GENPRU and Chapter 8 of BIPRU, in each case so far as relevant and as supplemented by any

	public written statement or guidance given by the FSA from time to time;
"Total Capital"	means the sum of Tier 1 Capital, Tier 2 Capital and Tier 3 Capital less Deductions from Total Capital calculated in accordance with GENPRU 2.2;
"Total Capital Ratio"	means the ratio of (i) Total Capital to (ii) Risk Weighted Assets determined on a consolidated basis and calculated consistently with any requirements of the FSA from time to time, expressed as a percentage;
"Treasury Solicitor"	has the same meaning as in the Treasury Solicitor Act 1876;
"Trigger Event"	means the Core Tier 1 Ratio falling below the Trigger Core Tier 1 Ratio;
"Trigger Core Tier 1 Ratio"	means five per cent.;
"UK Listing Authority"	means the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of the FSMA and in the exercise of its functions in respect of the admission of securities to the Official List otherwise than in accordance with Part VI of the FSMA;
"United States"	means the United States of America, its territories and possessions, any state of the United States and the District of Columbia;
"Upper Tier 2 Instrument"	means an instrument that is treated as forming part of the Company's upper tier 2 capital and shall be interpreted in accordance with GENPRU or, in the case of any instruments issued prior to 31 December 2006, IPRU (Bank), the Guide to Banking Supervisory Policy or, if relevant, any rules or guidance published by the Bank of England in force at the time when the relevant upper tier 2 instrument was issued;
"VAT"	means:
	(i) any tax imposed in conformity with the council directive of 28 November 2006 on the common system of value added tax (EC Directive 2006/112) (including, in relation to

the United Kingdom, value added tax imposed by the VATA and any legislation and/or regulations supplemental thereto); and

(ii) any other tax of a similar nature (whether imposed in a member state of the European Union in substitution for or in addition to the tax referred to in sub-paragraph (i) or imposed elsewhere);

"VATA" means the Value Added Tax Act 1994;

"Warranties" means the representations, warranties and undertakings given in this Agreement;

"Wholly Owned Entity" has the meaning given in clause 14.10(A); and

"Working Hours" means 9.30 am to 5.30 pm on a Business Day.

1.2 Interpretation

(A) Any reference to a document being "**in the agreed form**" means in the form of the draft thereof signed or initialled for the purpose of identification by Linklaters LLP (on behalf of the Company) and Slaughter and May (on behalf of HM Treasury).

(B) The Interpretation Act 1978 shall apply to this Agreement in the same way as it applies to an enactment.

(C) References to a statutory provision include any subordinate legislation made from time to time under that provision.

(D) References to a statutory provision or to any part of the FSA Rules include that provision or part of the FSA Rules as from time to time modified, supplemented, replaced or re-enacted so far as such modification, supplement, replacement or re-enactment applies or is capable of applying to any transactions entered into in accordance with this Agreement.

(E) In this Agreement:

(i) a reference to a "**subsidiary undertaking**" or "**parent undertaking**" is to be construed in accordance with section 1162 (and Schedule 7) of the CA 2006;

(ii) a reference to a "**subsidiary**" or "**holding company**" is to be construed in accordance with section 1159 of the CA 2006;

(iii) a reference to a "**participation**" is to be construed in accordance with the Handbook; and

(iv) a reference to a "**participating interest**" is to be construed in accordance with section 421A of FSMA.

(F) References to this Agreement include its Schedules and references in this Agreement to clauses and Schedules are to clauses of and Schedules to this Agreement.

(G) Headings shall be ignored in construing this Agreement.

(H) References to time of day are to London time unless otherwise stated.

(I) When construing any provision relating to VAT, any reference in this Agreement to any person shall (where appropriate) be deemed, at any time when such person is a member of a group of companies for VAT purposes, to include a reference to the representative member of such group at such time.

(J) Any reference to any indemnity, covenant to pay or payment (a "**Payment Obligation**") being given or made on an "**after-Tax basis**" or expressed to be calculated on an "**after-Tax basis**" means that, in calculating the amount payable pursuant to such Payment Obligation (the "**Payment**"), there shall be taken into account (if and to the extent that the same has not already been taken into account in the calculation of the Payment):

(i) any Tax suffered by the person entitled to receive the Payment to the extent that it arises as a result of the matter giving rise to the Payment Obligation or as a result of receiving, or being entitled to receive, the Payment; and

(ii) any relief, exemption, allowance or credit which is available to set against any Tax otherwise payable or against any income, profits or gains for Tax purposes, and any right to any refund or reimbursement of any Tax, which in each case is available to the person entitled to receive the Payment if and to the extent that the same arises as a result of the matter giving rise to the Payment Obligation or as a result of receiving, or being entitled to receive, the Payment,

such that the person entitled to receive the Payment is in the same economic position after Tax that it would have been in if the matter giving rise to the Payment Obligation had not occurred.

(K) Any reference to HM Treasury approving or agreeing the form of a Relevant Document, shall be a reference to such approval or agreement being given solely for the purposes of this Agreement.

(L) A reference to "**certificated**" or "**certificated form**" in relation to a share or other security is a reference to a share or other security title to which is recorded on the relevant register of the share or other security as being held in certificated form.

(M) A reference to "**uncertificated**" or "**uncertificated form**" in relation to a share or other security is a reference to a share or other security title to which is recorded on the relevant register of the share or other security as being held in uncertificated form, and title to which, by virtue of the Regulations, may be transferred by means of CREST.

(N) Words and expressions defined in the CA 2006 shall bear the same meaning.

2. ACQUISITION CONDITIONS

2.1 Conditions to Acquisition

The obligation of HM Treasury to acquire the Acquisition Shares on the terms of this Agreement is conditional on:

(A) the conditions to which RBS's participation in the APS is subject being satisfied in accordance with the APS Conditions or, if capable of waiver, being waived in accordance with the APS Conditions or Accession Agreement;

(B) there having occurred, as at the Condition Precedent Date and at the Acquisition Date, no material default or material breach:

(i) by the Company of the obligations applicable to it under this Agreement or the Tax Assets Agreement; or

(ii) by RBS of the terms of the Accession Agreement;

(C) the European Commission having decided that all State aid received by the Group to date, and any State aid that may be provided to the Group under the APS and under this Agreement, including as a consequence of HM Treasury's acquisition of:

(i) the Acquisition Shares; and

(ii) any Contingent Capital Shares,

is aid compatible with article 87 of the EC Treaty (subject to the commitments given in respect thereof by HM Treasury);

(D) the Company having obtained such approvals, authorisations, permits and consents as may be required by any government, state or other regulatory body and all necessary filings having been made and all necessary waiting periods having expired, in each case in any part of the world and as a consequence of the issue of the Acquisition Shares;

(E) HM Treasury having obtained such approvals, authorisations, permits and consents as may be required by any governmental, state or other regulatory body in any part of the world and all necessary filings having been made and all necessary waiting periods having expired, in each case as a consequence of the issue of the Acquisition Shares;

(F) each Warranty in Part I of Schedule 3 of this Agreement being true and accurate in all material respects and not misleading in any material respect as at the date of this Agreement and each Warranty in Parts I and II of Schedule 3 of this Agreement being true and accurate in all material respects and not misleading in any material respect on each Acquisition Warranty Date in each case by reference to the facts and circumstances then existing;

(G) there being, in the opinion of HM Treasury (acting in good faith) no Material Adverse Effect between the date of this Agreement and the Condition Precedent Date or the Acquisition Date;

(H) the delivery to HM Treasury, simultaneously with the execution of this Agreement, of a certified copy of an extract of the minutes of a meeting of the Board (or of the duly authorised committee of such Board), at which the execution of this Agreement was approved and authorised (and, if the resolution is of a committee, a certified copy of the resolution of the Board appointing such committee);

(I) the delivery to HM Treasury on the Acquisition Date of those documents listed in Part 1 of Schedule 2;

(J) the Circular being approved by the FSA in accordance with the Listing Rules and FSMA;

(K) the Circular not containing disclosure of any fact, matter or circumstance material in the context of the Group, the Acquisition or the Contingent Capital Commitment which has not previously been fairly disclosed, whether in any of the Previous Announcements or otherwise in writing to HM Treasury before the signing of this Agreement (including in any drafts of the Circular provided to HM Treasury on or after 8 November 2009 but on or before the signing of this Agreement), provided that disclosure in the Circular of any decision of the Supreme Court in relation to the ongoing case in respect of unarranged overdraft charges shall not constitute a fact, matter or circumstance material in the context of the Group, the Acquisition or the Contingent Capital Commitment for this purpose;

(L) the GM being duly convened and held by 21 December 2009;

(M) subject to applicable law (including directors' fiduciary duties), the Directors recommending (without qualification and maintaining such recommendation) that the Shareholders vote in favour of the Resolutions;

(N) subject to applicable law, the Directors voting all Ordinary Shares held by them in favour of the Resolutions;

(O) the Shareholders passing the Resolutions (without amendment) at the GM and, having been so passed, the Resolutions not having been amended or revoked at any time prior to the Acquisition Date; and

(P) HM Treasury, having consulted with the Company, being satisfied, as at the Condition Precedent Date and at the Acquisition Date that the Acquisition continues to be proportionate and appropriate for the maintenance of the financial stability of the Company, each in the context of the general economic and market conditions then prevailing.

2.2 Satisfaction and waiver of conditions to Acquisition

(A) Subject to the fiduciary duties of the Directors, the Company shall use all reasonable endeavours to procure the fulfilment of the conditions set out in clause 2.1 which are to be fulfilled by the Company and, where applicable, by the times and dates stated therein (or such later times and/or dates as HM Treasury may agree) and shall notify HM Treasury forthwith in the event that the Company or any of the Directors becomes aware that any of the conditions set out in clause 2.1 has become or might reasonably be expected to become incapable of fulfilment by the time and/or date stated in such condition (or such later time and/or date as HM Treasury may agree) or at all.

(B) Subject to clause 2.2(D), HM Treasury shall be entitled, in its absolute discretion and upon such terms as it shall think fit, to waive fulfilment of all or any of the conditions set out in clause 2.1 (other than clauses 2.1(C), 2.1(D), 2.1(J) and 2.1(O)) or to extend the time provided for fulfilment of any of the conditions set out in clause 2.1 in respect of all or any part of the performance thereof.

(C) If the condition set out in clause 2.1(D) is not satisfied at the Condition Precedent Date, the parties shall treat such condition as waived if the relevant matter in respect of which the condition has not been satisfied is not likely to lead to material consequences for the Company or the Directors or for HM Treasury and is not material in the context of the Acquisition and, in all cases taking account of the financial circumstances of the Company.

(D) If:

(i) any of the conditions set out in clause 2.1 (other than the condition set out in clause 2.1(P)) are not fulfilled or, if capable of waiver pursuant to clause 2.2(B), waived or treated as waived pursuant to clause 2.2(C), by the date and/or time specified therein (or such later time and/or date as HM Treasury may agree); and

(ii) HM Treasury does not consider it necessary that the Acquisition proceed to completion in order to maintain the financial stability of the United Kingdom,

or

(iii) the condition set out in clause 2.1(P) is not fulfilled in respect of the Acquisition as at the Acquisition Date,

then on notice from HM Treasury to the Company, this Agreement shall cease and determine and no party to this Agreement shall have any claim against any

other party to this Agreement for costs, damages, compensation or otherwise except as provided in clause 2.2(F).

(E) Without prejudice to the rights of HM Treasury under clause 12, if any of the conditions set out in clause 2.1 are not fulfilled or, if capable of waiver pursuant to clause 2.2(B), waived, or treated as waived pursuant to clause 2.2(C), by the date and/or time specified herein (or such later time as HM Treasury may agree) and if HM Treasury does consider it necessary that the Acquisition and the other arrangements contemplated by this Agreement proceed to completion in order to maintain the financial stability of the United Kingdom, then on notice to the Company from HM Treasury, HM Treasury shall treat as waived such outstanding conditions in clause 2.1 (other than any condition referred to as not being waivable by HM Treasury).

(F) Where this Agreement has terminated pursuant to clause 2.2(D):

(i) such termination shall be without prejudice to any accrued rights or obligations under this Agreement;

(ii) the Company shall pay any fees and expenses that are payable in such circumstance under and in accordance with clause 7.1;

(iii) for as long as HM Treasury holds any Ordinary Shares, the provisions of clauses 8.2, 8.3, 8.4 and 8.14 shall remain in full force and effect; and

(iv) the provisions of this clause 2.2(F) and clauses 1, 7, , 8.8, 9, 10, 11, 13, 14 and 15 shall remain in full force and effect.

3. ACQUISITION

3.1 Acquisition Date

(A) The consideration for the allotment and issue of the Acquisition Shares to HM Treasury shall be the transfer by HM Treasury of the Consideration Shares to the Company pursuant to the Subscription and Transfer Agreement.

(B) [***]

3.2 Undertakings

(A) Subject to obtaining the approval of the Circular by the FSA, the Company shall procure that:

(i) the Circular and Forms of Proxy are posted to all Shareholders; and

(ii) a copy of the Circular is forwarded to the FSA in accordance with the Listing Rules.

(B) Subject always to the fiduciary duties of the Directors, the Company shall procure that the GM is duly convened and that the Resolutions are proposed at it.

3.3 Board meetings

The Company confirms to HM Treasury that a meeting or meetings of the Board has or have been held (and/or, in the case of (B), (C), (D) and (E) below, undertakes to hold such a meeting or meetings) which has, have (or will have, as the case may be):

(A) authorised the Company to enter into and perform its obligations under this Agreement;

(B) approved the form of the Circular and the Form of Proxy and authorised and approved the publication of the Circular and the Form of Proxy;

(C) authorised the Company to enter into and perform its obligations under the Cashbox Documents;

(D) approved the allotment and issue of the Acquisition Shares pursuant to the Acquisition; and

(E) authorised all necessary steps to be taken by the Company in connection with each of the above matters.

4. USE OF ACQUISITION AMOUNT

[***]

5. CONTINGENT CAPITAL

5.1 Contingent Capital Commitment

HM Treasury hereby undertakes to subscribe for the Contingent Capital Shares (at the Contingent Capital Price) (the "**Contingent Capital Commitment**") on and subject to the terms of this Agreement. References in this Agreement to the Contingent Capital Commitment shall be deemed to include a reference to any Contingent Capital Subscription pursuant to the Contingent Capital Commitment.

5.2 Contingent Capital Subscription

(A) Subject to the other provisions of this clause 5, a Contingent Capital Subscription shall take place:

(i) at any time before the Contingent Capital Expiry Date;

(ii) in respect of the Relevant Contingent Capital Number of B Shares on the occasion of each such Contingent Capital Subscription; and

(iii) together with all other Contingent Capital Subscriptions, in respect of no more than the number of Contingent Capital Shares.

(B) The Company and HM Treasury may, following consultation with the FSA, agree to substitute for the Relevant Contingent Capital Number of B Shares applicable to the First Contingent Capital Subscription and/or the Second Contingent Capital Subscription a lower number of B Shares, in which case such lower number shall be the Relevant Contingent Capital Number of B Shares for the purposes of such Contingent Capital Subscription.

5.3 Conditions precedent to Contingent Capital Subscription

The obligation of HM Treasury to subscribe for the Contingent Capital Shares on a Contingent Capital Completion Date pursuant to the Contingent Capital Commitment shall be conditional on:

(A) the Acquisition having taken place in accordance with the terms of this Agreement;

(B) the Resolutions not having been amended or revoked at any time prior to the relevant Contingent Capital Completion Date;

(C) at the relevant Contingent Capital Completion Date, the European Commission's approval referred to in clause 2.1(C) continuing to be in force and not having been withdrawn, and the European Commission not having opened a formal investigation under Article 88(2) of the EC Treaty in relation to the possible misuse of aid;

(D) the Company having obtained such approvals, authorisations, permits and consents as may be required by any government, state or other regulatory body and all necessary filings having been made and all necessary waiting periods having expired, in each case in any part of the world and as a consequence of the Contingent Capital Commitment and any issue of Contingent Capital Shares;

(E) HM Treasury having obtained such approvals, authorisations, permits and consents as may be required by any governmental, state or other regulatory body in any part of the world and all necessary filings having been made and all necessary waiting periods having expired, in each case as a consequence of the Contingent Capital Commitment and any issue of Contingent Capital Shares;

(F) there having occurred, at the relevant Contingent Capital Completion Date, no breach by the Company of the State Aid Commitment Deed;

(G) there having occurred no Termination Event as at the relevant Contingent Capital Completion Date;

(H) there having occurred a Trigger Event since the later of the date of this Agreement and the most recent Contingent Capital Completion Date (if any);

(I) the delivery to HM Treasury of a certificate of the Company, verified by an Appropriate Person, confirming that a Trigger Event has occurred and the date on which such Trigger Event occurred;

(J) the aggregate number of B Shares subscribed or to be subscribed for by HM Treasury on the relevant Contingent Capital Completion Date pursuant to the relevant Contingent Capital Subscription not exceeding the number of Contingent Capital Shares (taking account of prior Contingent Capital Subscriptions);

(K) HM Treasury continuing to hold the Dividend Access Share on the relevant Contingent Capital Completion Date;

(L) the Company having paid in full the Annual Premium in respect of the Premium Period in which the Contingent Capital Notice is served and in respect of all prior Premium Periods, in each case in accordance with clauses 6.1, 6.2 and 6.3; and

(M) the delivery to HM Treasury on the relevant Contingent Capital Completion Date of those documents listed in Part II of Schedule 2.

5.4 Waiver of conditions precedent to Contingent Capital Subscription

HM Treasury shall be entitled, in its absolute discretion and upon such terms as it shall think fit, to waive fulfilment of all or any of the conditions set out in clause 5.3.

5.5 Procedure for Contingent Capital Subscription

(A) Subject to clause 5.5(B)(iii), if at any time a Trigger Event occurs, the Company shall, forthwith on becoming aware of the occurrence of such Trigger Event, send a notice (a "**Contingent Capital Notice**") in writing to HM Treasury setting out:

(i) in respect of the First Contingent Capital Subscription and the Second Contingent Capital Subscription, the Relevant Contingent Capital Number;

(ii) fair disclosure as at the Contingent Capital Notice Date of anything which is or is likely to constitute a breach of any of the Contingent Capital Warranties (other than the Warranties set out at paragraphs 1 (except paragraphs 1.2, 1.4 and 1.10), 2, 3 (except paragraph 3.4) and 6 of Schedule 4) as given at such Contingent Capital Notice Date pursuant to clause 9.1(C) by reference to the facts and circumstances then existing, such disclosure being identified as having been made for the purposes of this Agreement;

(iii) the amount standing to the credit of the Company's share premium account as at the date of the Contingent Capital Notice; and

(iv) confirmation that, in the Company's good faith opinion, all conditions to the Contingent Capital Subscription set out in clause 5.3 will be satisfied as at the relevant Contingent Capital Completion Date or if, in the Company's good faith opinion, any conditions set out in clause 5.3 will not be so satisfied, notice to HM Treasury of such conditions.

(B) Following delivery of a Contingent Capital Notice:

(i) such notice shall not be capable of being withdrawn;

(ii) HM Treasury shall:

(a) where the Contingent Capital Notice is delivered in respect of a Subsequent Contingent Capital Subscription, having consulted with the Company, inform it of the Relevant Contingent Capital Number in respect of such Subsequent Contingent Capital Subscription; and

(b) inform the Company of the date on which HM Treasury shall, subject to clause 5.3, subscribe for the relevant Contingent Capital Shares, being not more than 30 Business Days following the date on which HM Treasury receives the

Contingent Capital Notice unless HM Treasury and the Company otherwise agree (the "**Contingent Capital Completion Date**"); and

(iii) the Company may not, without the prior written consent of HM Treasury, send any further Contingent Capital Notices to HM Treasury pursuant to clause 5.5(A) until the day following the Contingent Capital Completion Date occurring in respect of the outstanding Contingent Capital Notice.

5.6 Contingent Capital Completion

Subject to clause 5.2, to the Contingent Capital Notice not being withdrawn and to any alternative arrangements by which the subscription for the Contingent Capital Shares is to be effected which may be agreed between the Company and HM Treasury, on each Contingent Capital Completion Date:

(A) HM Treasury shall ensure that payment in cash (within the meaning given by section 583 of CA 2006), in pounds sterling and in a manner which is not prohibited by section 587 of CA 2006, is made of an amount equal to the relevant Contingent Capital Amount, which shall constitute a complete discharge of HM Treasury's obligations to make payments in respect of the relevant Contingent Capital Shares; and

(B) against compliance by HM Treasury with its obligations under clause 5.6(A), the Company shall:

(i) allot and issue the relevant Contingent Capital Shares to HM Treasury as fully paid;

(ii) procure that the Registrar enters HM Treasury, or its nominee, in the register of members of the Company as the holder of the relevant Contingent Capital Shares; and

(iii) procure that the Registrar delivers a share certificate to HM Treasury or its nominee in respect of the relevant Contingent Capital Shares.

5.7 Use of proceeds of Contingent Capital Subscription

The Company agrees that it shall, promptly after each Contingent Capital Completion Date, apply the proceeds of the relevant issue of Contingent Capital Shares (or, as the case may be, promptly after any redemption of any shares transferred in consideration of the issue of the relevant Contingent Capital Shares, apply the proceeds arising from such redemption) in such manner, in such form and for such purposes as may be agreed with HM Treasury, the FSA and the Bank of England.

5.8 Issue of Contingent Capital Shares

(A) The Contingent Capital Shares shall be allotted and issued free from all Adverse Interests.

(B) The Company undertakes that it shall at all times keep available for issue, free from pre-emption rights:

(i) sufficient B Shares to permit each Contingent Capital Subscription and issue of Contingent Capital Shares in accordance with the terms of this Agreement and any issue of B Shares pursuant to clauses 6.2 or 6.3; and

(ii) sufficient Ordinary Shares to permit the conversion of all B Shares in issue from time to time in accordance with their terms.

5.9 Board Meetings

The Company undertakes to HM Treasury to hold a meeting or meetings of the Board which will:

(A) approve the allotment and issue of Contingent Capital Shares pursuant to each Contingent Capital Subscription; and

(B) authorise all necessary steps to be taken by the Company in connection therewith,

in each case prior to the relevant Contingent Capital Completion Date.

5.10 Termination of Contingent Capital Commitment

(A) The Company may at any time between the Acquisition Date and the Contingent Capital Expiry Date terminate the Contingent Capital Commitment in whole or in part (with the consent of the FSA) by notice in writing to HM Treasury (a "**Contingent Capital Termination Notice**"). The Contingent Capital Termination Notice will set out the number of Contingent Capital Shares in respect of which the Contingent Capital Commitment is to be terminated (the "**Contingent Capital Termination Shares**") and the date with effect from which the Contingent Capital Commitment will so terminate, being no earlier than the day falling ten Business Days after the date on which HM Treasury receives the Contingent Capital Termination Notice (being, in the case of a partial termination of the Contingent Capital Commitment, the "**Partial Contingent Capital Termination Date**" and, in the case of the complete termination of the Contingent Capital Commitment, the "**Final Contingent Capital Termination Date**"), and shall have attached to it written consent from the FSA to such termination of the Contingent Capital Commitment with effect from the Partial Contingent Capital Termination Date or Final Contingent Capital Termination Date (as the case may be).

(B) If the Company serves a Contingent Capital Termination Notice in accordance with clause 5.10(A) in respect of some but not all of the Contingent Capital Shares which have not already been the subject of a Contingent Capital Subscription, the number of Contingent Capital Shares shall be reduced by the number of Contingent Capital Termination Shares with effect from the Partial Contingent Capital Termination Date and HM Treasury and the Company shall

agree in good faith any consequent reduction of the Relevant Contingent Capital Number, provided always that:

(i) such termination shall be without prejudice to any accrued rights or obligations under this Agreement; and

(ii) such termination shall be conditional on the Company paying:

(a) any fees and expenses that are payable in such circumstance under and in accordance with clause 7.1; and

(b) any amount of the Annual Premium which has not been paid on the First Payment Date and/or any Relevant Payment Date (as the case may be) and which remains outstanding, together with any interest accrued thereon.

(C) If the Company serves a Contingent Capital Termination Notice in accordance with clause 5.10(A) in respect of all Contingent Capital Shares which have not already been the subject of a Contingent Capital Subscription, this Agreement shall cease and determine with effect from the Final Contingent Capital Termination Date and no party to this Agreement shall have any claim against any other party to this Agreement for costs, damages, compensation or otherwise (including for the repayment of any amount representing any pre-payment of the Annual Premium in respect of any period following the Final Contingent Capital Termination Date), provided always that:

(i) such termination shall be without prejudice to any accrued rights or obligations under this Agreement;

(ii) such termination shall be conditional on the Company paying:

(a) any fees and expenses that are payable in such circumstance under and in accordance with clause 7.1; and

(b) any amount of the Annual Premium which remains outstanding together with any interest accrued thereon;

(iii) for as long as HM Treasury holds any Ordinary Shares, the provisions of clauses 8.2, 8.3, 8.4 and 8.14 shall remain in full force and effect;

(iv) for as long as HM Treasury holds any B Shares, the provisions of clauses 8.2, 8.3, 8.4, 8.5, 8.6, 8.7, 8.13(A) and 8.15 shall remain in full force and effect; and

(v) the provisions of this clause 5.10(B) and clauses 1, 6, 7, 8.8, 9, 10, 11, 13, 14 and 15 shall remain in full force and effect.

5.11 Regulatory changes

HM Treasury and the Company agree that they will negotiate in good faith with a view to agreeing any amendments to the terms of the Contingent Capital Commitment which may be necessary as a result of future legislative or regulatory changes so as to preserve the effect of the Contingent Capital Commitment as at the date of this Agreement.

6. ANNUAL PREMIUM

6.1 Amount of Annual Premium

(A) In consideration of HM Treasury agreeing to (i) acquire the Acquisition Shares and (ii) enter into the Contingent Capital Commitment, the Company hereby agrees to pay to HM Treasury, in respect of each Premium Period, a sum equal to the Premium Amount, which shall be paid (or deemed to be discharged) in accordance with this clause 6.1 and clauses 6.2 and 6.3 (the "**Annual Premium**").

(B) Subject to clauses 6.2 and 6.3:

(i) the Annual Premium payable in respect of the First Premium Period shall be due and payable on the Acquisition Date (the "**First Payment Date**"); and

(ii) each subsequent Annual Premium shall be due and payable on the first day of the relevant Premium Period (or, if such day is not a Business Day, the Business Day which immediately precedes that date),

(each referred to in this Agreement as a "**Payment Date**").

(C) Subject to clause 6.2, the amount of the Annual Premium due and payable on each Payment Date, in respect of the Premium Period to which such Payment Date relates, shall be as follows:

(i) in respect of the First Premium Period, an amount equal to £320,000,000; and

(ii) in respect of each subsequent Premium Period, an amount equal to the product of:

£320,000,000 - (*x* x 4%)

where *x* is the aggregate Contingent Capital Price of:

(a) all Contingent Capital Shares which have been issued to HM Treasury pursuant to clause 5 as at the first day of such Premium Period; and

(b) all Contingent Capital Termination Shares (if any),

provided that the Annual Premium shall never be less than zero,

(in each case, the "**Premium Amount**").

(D) If the Company defaults on the payment of any Annual Premium when due under this Agreement, the amount of such Annual Premium shall remain due and payable and shall be increased to include interest on such amount of such Annual Premium as remains outstanding from the date on which such payment was first due until the actual date of payment at a rate of five per cent. above the base rate from time to time of the Bank of England. Such interest shall accrue from day to day and shall be compounded annually.

6.2 First Annual Premium - Form of payment

(A) If, on or before the First Reference Date, the Company serves on HM Treasury a Payment Proposal Notice relating to the Annual Premium payable on the First Payment Date (the "**First Annual Premium**"), setting out the information prescribed in Schedule 9:

(i) in any case where the amount set out in paragraph 2(a) of such Payment Proposal Notice is more than nil, such amount of the First Annual Premium shall be paid in cash on the First Payment Date;

(ii) in any case where the amount set out in paragraph 2(b) of such Payment Proposal Notice is more than nil and the Dividend Access Share remains in issue on the First Payment Date:

(a) the Company and HM Treasury shall, during the period between the receipt by HM Treasury of such Payment Proposal Notice and the First B Shares Determination Date, discuss the proposal set out in paragraph 2(b) of such Payment Proposal Notice;

(b) if and to the extent that HM Treasury and the Company agree on or before the First B Shares Determination Date that any amount of the First Annual Premium is to be payable in cash and that HM Treasury is to apply the same amount in acquiring further B Shares (such amount being referred to in this clause 6.2(A)(ii)(b) as the "**Agreed B Shares Amount**" and, if HM Treasury and the Company do not so agree, the Agreed B Shares Amount shall be deemed to be nil), then, subject to clause 6.4:

(1) such amount of the First Annual Premium as is equal to the Agreed B Shares Amount shall be payable in cash on the First Payment Date;

(2) on or before the First Payment Date HM Treasury shall apply a sum equal to the Agreed B Shares Amount in subscribing for further B Shares from the Company at a price of £0.50 per B Share (as the same may be adjusted in accordance with paragraph 4(l) of the B Share Terms);

(3) the Company's liability to pay the amount of the First Annual Premium referred to in clause 6.2(A)(ii)(b)(1) and HM Treasury's liability to pay the sum described in clause 6.2(A)(ii)(b)(2) shall be discharged by way of set off; and

(4) the Company shall, on the First Payment Date:

(A) allot and issue the relevant B Shares to HM Treasury;

(B) procure that the Registrar enters HM Treasury in the register of members of the Company as the holder of the relevant B Shares; and

(C) procure that the Registrar delivers a share certificate to HM Treasury or its nominee in respect of the relevant B Shares; and

(c) if and to the extent that the Agreed B Shares Amount is lower than the amount set out in paragraph 2(b) of such Payment Proposal Notice (such difference being referred to in this clause 6.2(A)(ii)(c) as the "**B Shares Shortfall Amount**"), such amount of the First Annual Premium as is equal to the B Shares Shortfall Amount shall be paid in cash on the First Payment Date;

(iii) in any case where the amount set out in paragraph 2(b) of the Payment Proposal Notice is more than nil and the Dividend Access Share does not remain in issue on the First Payment Date, such amount of the First Annual Premium shall be payable in cash on the First Payment Date; and

(iv) in any case where the amount set out in paragraph 2(c) of such Payment Proposal Notice is more than nil:

(a) to the extent of such amount, the First Annual Premium shall be due and payable on the date referred to in clause 6.2(A)(iv)(c) and/or clause 6.2(A)(iv)(d) as the case may be (and not, for the avoidance of doubt, on the First Payment Date);

(b) a "Tax Assets Notice" shall be deemed to have been served in respect of the First Payment Date for the purposes of the Tax Assets Agreement;

(c) if and to the extent that the Tax Assets Agreement provides that the amount of the First Annual Premium is to be treated as discharged by an amount of tax relief foregone (such amount being referred to in this clause 6.2(A)(iv) as the "**Agreed Tax Assets Amount**"), the First Annual Premium:

(1) shall be due for payment on, and shall be treated as having been discharged in an amount equal to the Agreed Tax Assets Amount on, the date provided for in the Tax Assets Agreement; and

(2) for the avoidance of doubt, shall not be payable in cash to the extent of the Agreed Tax Assets Amount; and

(d) if and to the extent that the Agreed Tax Assets Amount is lower than the amount set out in paragraph 2(c) of such Payment Proposal Notice (such difference being referred to in this clause 6.2(A)(iv)(d) as the "**Tax Assets Shortfall Amount**"):

(1) subject to clauses 6.2(A)(iv)(d)(2) and 6.2(A)(iv)(d)(3) below, such amount of the First Annual Premium as is equal to the Tax Assets Shortfall Amount shall be paid in cash on the Adjusted First Payment Date; and

(2) the amount of the First Annual Premium which is payable in cash on the Adjusted First Payment Date (as described in clause 6.2(A)(iv)(d)(1)) shall be increased by an amount equal to interest on the Tax Assets Shortfall Amount in respect of the period from (and including) the First Payment Date to (but excluding) the Adjusted First Payment Date at the Interest Rate; and

(3) if and to the extent that the Company and HM Treasury agree on or before the Adjusted First Payment Date that HM Treasury is to apply an amount (such amount being referred to in this clause 6.2(A)(iv)(d)(3) as the "**Fallback B Shares Amount**") representative of all or part of the amount referred to in clause 6.2(A)(iv)(d)(1) or 6.2(A)(iv)(d)(2) above in acquiring further B Shares and provided the Dividend Access Share remains in issue on the Adjusted First Payment Date then, subject to clause 6.4:

(A) on the Adjusted First Payment Date, HM Treasury shall apply a sum equal to the Fallback B Shares Amount in subscribing for

further B Shares at a price of £0.50 per B Share (as the same may be adjusted in accordance with paragraph 4(I) of the B Share Terms) (such amount being referred to in this clause 6.2(A)(iv)(d)(3) as the "**Fallback B Shares Subscription Amount**");

(B) HM Treasury's liability to pay the Fallback B Shares Subscription Amount and, to the extent of the Fallback B Shares Amount, the Company's liability to pay the First Annual Premium referred to in clause 6.2(A)(iv)(d)(1) above shall be discharged by way of set off; and

(C) the Company shall, on the Adjusted First Payment Date:

(1) allot and issue the relevant B Shares to HM Treasury;

(2) procure that the Registrar enters HM Treasury in the register of members of the Company as the holder of the relevant B Shares; and

(3) procure that the Registrar delivers a share certificate to HM Treasury or its nominee in respect of the relevant B Shares.

(B) For the avoidance of doubt, in any case where clause 6.2(A) does not apply, the First Annual Premium shall be paid in cash.

6.3 Other Annual Premia - Form of payment

(A) If, on or before the Reference Date relating to any Payment Date other than the First Payment Date (referred to in this clause 6.3(A) as the "**Relevant Payment Date**"), the Company serves on HM Treasury a Payment Proposal Notice relating to the Annual Premium payable on the Relevant Payment Date (referred to in this clause 6.3(A) as the "**Relevant Annual Premium**"), setting out the information prescribed in Schedule 9:

(i) in any case where the amount set out in paragraph 2(a) of such Payment Proposal Notice is more than nil, such amount of the Relevant Annual Premium shall be paid in cash on the Relevant Payment Date;

(ii) in any case where the amount set out in paragraph 2(b) of such Payment Proposal Notice is more than nil and the Dividend Access Share remains in issue on the Relevant Payment Date:

(a) the Company and HM Treasury shall, during the period between the receipt by HM Treasury of such Payment Proposal Notice and the relevant B Shares Determination Date, discuss the proposal set out in paragraph 2(b) of such Payment Proposal Notice;

(b) if and to the extent that HM Treasury and the Company agree on or before the relevant B Shares Determination Date that any amount of the Relevant Annual Premium is to be payable in cash and that HM Treasury is to apply the same amount in acquiring further B Shares (such amount being referred to in this clause 6.3(A)(ii)(b) as the "**Agreed B Shares Amount**" and, if HM Treasury and the Company do not so agree, the Agreed B Shares Amount shall be deemed to be nil) then, subject to clause 6.4:

(1) such amount of the Relevant Annual Premium as is equal to the Agreed B Shares Amount shall be payable in cash on the Relevant Payment Date;

(2) on or before the Relevant Payment Date HM Treasury shall apply a sum equal to the Agreed B Shares Amount in subscribing for further B Shares at a price of £0.50 per B Share (as the same may be adjusted in accordance with paragraph 4(l) of the B Share Terms);

(3) the Company's liability to pay the amount of the Relevant Annual Premium referred to in clause 6.3(A)(ii)(b)(1) and HM Treasury's liability to pay the sum described in clause 6.3(A)(ii)(b)(2) shall be discharged by way of set off; and

(4) the Company shall, on the Relevant Payment Date:

(A) allot and issue the relevant B Shares to HM Treasury;

(B) procure that the Registrar enters HM Treasury in the register of members of the Company as the holder of the relevant B Shares; and

(C) procure that the Registrar delivers a share certificate to HM Treasury or its nominee in respect of the relevant B Shares; and

(c) if and to the extent that the Agreed B Shares Amount is lower than the amount set out in paragraph 2(b) of such Payment Proposal Notice (such difference being referred to in this clause 6.3(A)(ii)(c) as the "**B Shares Shortfall Amount**"), such amount of the Relevant Annual Premium as is equal to the B Shares

Shortfall Amount shall be paid in cash (for the avoidance of doubt, on the Relevant Payment Date); and

(iii) in any case where the amount set out in paragraph 2(b) of the Payment Proposal Notice is more than nil and the Dividend Access Share does not remain in issue on the Relevant Payment Date, such amount of the Relevant Annual Premium shall be payable in cash on the Relevant Payment Date; and

(iv) in any case where the amount set out in paragraph 2(c) of such Payment Proposal Notice is more than nil:

(a) to the extent of such amount, the Relevant Annual Premium shall be due and payable on the date referred to in clause 6.3(A)(iv)(c) and/or clause 6.3(A)(iv)(d) as the case may be;

(b) a "Tax Assets Notice" shall be deemed to have been served in respect of the Relevant Payment Date for the purposes of the Tax Assets Agreement;

(c) if and to the extent that the Tax Assets Agreement provides that the amount of the Relevant Annual Premium is to be treated as discharged by an amount of tax relief foregone (such amount being referred to in this clause 6.3(A)(iv) as the "**Agreed Tax Assets Amount**"), the Relevant Annual Premium:

(1) shall be due for payment on, and shall be treated as having been discharged in an amount equal to the Agreed Tax Assets Amount on, the date provided for in the Tax Assets Agreement; and

(2) for the avoidance of doubt, shall not be payable in cash to the extent of the Agreed Tax Assets Amount; and

(d) if and to the extent that the Agreed Tax Assets Amount is lower than the amount set out in paragraph 2(c) of such Payment Proposal Notice (such difference being referred to in this clause 6.3(A)(iv)(d) as the "**Tax Assets Shortfall Amount**"):

(1) subject to clause 6.3(A)(iv)(d)(2), such amount of the Relevant Annual Premium as is equal to the Tax Assets Shortfall Amount shall be paid in cash on the Relevant Payment Date; and

(2) if and to the extent that the Company and HM Treasury agree on or before the Relevant Payment Date that HM Treasury is to apply an amount (such amount being referred to in this clause 6.3(A)(iv)(d)(2) as the "**Fallback B Shares Amount**") representative of all or any part of the amount referred to in clause

6.3(A)(iv)(d)(1) above in acquiring further B Shares and providing the Dividend Access Share remains in issue on the Relevant Payment Date then, subject to clause 6.4:

(A) on or before the Relevant Payment Date, HM Treasury shall apply a sum equal to the Fallback B Shares Amount in subscribing for further B Shares at a price of £0.50 per B Share (as the same may be adjusted in accordance with paragraph 4(I) of the B Share Terms) (such amount being referred to in this clause 6.3(A)(iv)(d)(2) as the "**Fallback B Shares Subscription Amount**");

(B) HM Treasury's liability to pay the Fallback B Shares Subscription Amount and, to the extent of the Fallback B Shares Amount, the Company's liability to pay the Relevant Annual Premium referred to in clause 6.3(A)(iv)(d)(1) above shall be discharged by way of set off; and

(C) the Company shall, on the Relevant Payment Date:

(1) allot and issue the relevant B Shares to HM Treasury;

(2) procure that the Registrar enters HM Treasury in the register of members of the Company as the holder of the relevant B Shares; and

(3) procure that the Registrar delivers a share certificate to HM Treasury or its nominee in respect of the relevant B Shares.

(B) For the avoidance of doubt, in any case where clause 6.3(A) does not apply, each Annual Premium payable on any Payment Date other than the First Payment Date shall be paid in cash.

6.4 Alternative settlement arrangements

If, on or before the First Payment Date or the Relevant Payment Date (as the case may be), HM Treasury and the Company agree that any acquisition of B Shares by HM Treasury pursuant to the operation of clause 6.2 or 6.3 is to be implemented by means of a cashbox structure, the provisions of clauses 6.2(A)(ii)(b), 6.2(A)(iv)(d)(3), 6.3(A)(ii)(b) and/or 6.3(A)(iv)(d)(2) (as the case may be) shall be substituted by such

other settlement arrangements as HM Treasury and the Company may agree, consistent with the arrangements reflected at clause 3.1(B) in respect of the Acquisition.

6.5 Discretion

For the avoidance of doubt, HM Treasury shall be entitled to exercise its absolute discretion in relation to any consent or agreement which this clause 6 contemplates may be given or made by it and, without limitation of the foregoing, shall be under no obligation to consent or agree to any method of payment set out in a Payment Proposal Notice (provided that, if HM Treasury exercises any such discretion in any particular way upon any application of any provision of this clause 6 and notifies the Company of such exercise of such discretion, such exercise of such discretion shall be irrevocable unless HM Treasury and the Company agree otherwise and, if any such agreement is made, such agreement shall be irrevocable unless HM Treasury and the Company agree otherwise).

6.6 Continuing obligations

For the avoidance of doubt, the Company's obligations pursuant to this clause 6 in respect of any Annual Premium which has become due for payment before the End Date shall not, unless the parties otherwise agree, be affected by the occurrence of the End Date during any Premium Period and, without limitation of the foregoing, HM Treasury shall not be obliged to repay all or any part of such Annual Premium notwithstanding the occurrence of the End Date during any Premium Period.

6.7 Payments in cash

If and to the extent that any Annual Premium is to be paid in cash pursuant to this clause 5, such payment shall be made:

(A) in immediately available and transferable funds;

(B) in sterling, unless HM Treasury and the Company agree otherwise; and

(C) to such bank account as may be nominated by HM Treasury from time to time.

7. COSTS, EXPENSES AND TAX

7.1 Payment of HM Treasury's costs and expenses

(A) In consideration of HM Treasury agreeing to acquire the Acquisition Shares and enter into the Contingent Capital Commitment under this Agreement, the Company shall pay HM Treasury's legal and other costs and expenses and the costs and expenses of HM Treasury's financial advisers, in each case incurred for the purpose of or in connection with:

(i) the Acquisition, the Contingent Capital Commitment and the Cashbox Documents and all arrangements relating thereto; and

(ii) the matters referred to in clauses 7.3(G), 8.2, 8.3, 8.7, 8.9, 8.12, 8.13 and 8.15.

(B) The costs and expenses referred to in this clause 7.1 shall be payable whether or not this Agreement becomes unconditional or is terminated for any reason and shall be payable:

(i) in respect of any costs and expenses referred to in clause 7.1(A)(i):

(a) relating to the Acquisition, the entry into the Contingent Capital Commitment, the Cashbox Documents or any related arrangements, on the Acquisition Date;

(b) relating to each Contingent Capital Subscription or any related arrangements, the earlier of the relevant Contingent Capital Completion Date and the date falling twenty one days after the Contingent Capital Completion Date specified by HM Treasury or otherwise agreed pursuant to clause 5.5(B)(ii)(b);

or, if earlier,

(c) the day on which this Agreement is terminated; and

(ii) in respect of any costs and expenses referred to in clause 7.1(A)(ii), within 14 days of demand therefor from HM Treasury.

(C) HM Treasury may deduct the amount of the expenses payable under this clause 7.1 together with an amount in respect of any VAT chargeable thereon, from any payment to be made by HM Treasury pursuant to clause 5.6(A).

7.2 Costs and expenses generally

Notwithstanding the provisions of clause 7.1, the Company shall bear all of its costs and expenses of or incidental to the Acquisition, the Cashbox Documents, the Contingent Capital Commitment and the matters contemplated by this Agreement (including, for the avoidance of doubt, any applicable amounts in respect of VAT thereon, in accordance with clause 7.3(D)), such expenses including, without limitation, the fees and expenses of its professional advisers, the cost of preparing, printing and distributing the Circular and all other documents connected with the Acquisition, the Cashbox Documents and the Contingent Capital Commitment and the Registrar's fees. This clause 7.2 shall not apply to any Tax (provision for which is, for the avoidance of doubt, made in clause 7.3) except to the extent provided for in clause 7.3.

7.3 Tax

(A) The Company shall pay and bear any Stamp Tax which is payable or paid in connection with:

(i) the allotment and issue of the Acquisition Shares or the Contingent Capital Shares or the delivery of the Acquisition Shares or the

Contingent Capital Shares in the manner contemplated by this Agreement or the execution, delivery, performance or enforcement of this Agreement (including, without limitation, the Contingent Capital Commitment); or

(ii) without limitation of the foregoing, any matters contemplated in the Cashbox Documents (including, without limitation, in connection with any delivery, issue or transfer of any Cashbox Ordinary Shares or Cashbox Preference Shares as contemplated in the Cashbox Documents); or

(iii) without limitation of the foregoing, any matters contemplated in any documentation relating to any cashbox structure by which the allotment and issue of the relevant Contingent Capital Shares may be implemented (including, without limitation, in connection with any delivery, issue or transfer of any shares in the capital of any company similar to CashboxCo involved in such structure); or

(iv) without limitation of the foregoing, any matters contemplated in any documentation relating to any cashbox structure implemented pursuant to clause 6.4 (including, without limitation, in connection with any delivery, issue or transfer of any shares in the capital of any company similar to CashboxCo involved in such structure),

provided that this clause 7.3(A) shall not apply to:

(a) any Stamp Tax payable in respect of transfers of, or agreements to transfer, Acquisition Shares, Contingent Capital Shares or B Shares subscribed or acquired pursuant to clause 6.2 or 6.3 subsequent to any such Acquisition Shares having been acquired, or any such Contingent Capital Shares or B Shares having been acquired or subscribed for, by HM Treasury in the manner contemplated by this Agreement, the Cashbox Documents or such other documentation; or

(b) any stamp duty chargeable at a rate determined under section 67 or 70 of the Finance Act 1986 or SDRT chargeable under section 93 or 96 of the Finance Act 1986.

References in this clause 7.3(A) to Acquisition Shares, Contingent Capital Shares or B Shares include any interest in or rights to allotment of Acquisition Shares, Contingent Capital Shares or B Shares respectively.

(B) If HM Treasury or any other Indemnified Person is subject to Tax in respect of any sum payable under this Agreement, or if any such sum is taken into account in computing the taxable profits or income of HM Treasury or such other Indemnified Person, the sum payable shall be increased to such amount as will ensure that (after payment of such Tax, including, for the avoidance of doubt, any additional Tax payable as a result of such increase) HM Treasury or the

relevant Indemnified Person (as the case may be) retains a sum equal to the sum that it would have received and retained in the absence of such Tax.

(C) All sums payable by the Company (the "**Payer**") to HM Treasury or to any other Indemnified Person (the "**Payee**") pursuant to this Agreement are expressed exclusive of any amount in respect of VAT which is chargeable on the supply or supplies for which such sums (or any part thereof) is or are the whole or part of the consideration for VAT purposes. If any Payee makes (or is deemed for VAT purposes to make) any supply to the Payer pursuant to this Agreement and VAT is or becomes chargeable in respect of such supply, the Payer shall pay to the Payee (within 14 days of the receipt of a valid VAT invoice) an additional sum equal to the amount of such VAT.

(D) In any case where the Company is obliged to pay a sum to HM Treasury or to any other Indemnified Person under this Agreement by way of indemnity, reimbursement, damages or compensation for or in respect of any fee, liability, cost, charge or expense (the "**Relevant Cost**"), the Company shall pay to HM Treasury or to any other Indemnified Person (as the case may be) at the same time an additional amount determined as follows:

(i) if the Relevant Cost is for VAT purposes the consideration for a supply of goods or services made to HM Treasury or to any other Indemnified Person (including, for the avoidance of doubt, where such supply is made to HM Treasury or any other Indemnified Person acting as agent for the Company within the terms of section 47 VATA), such additional amount shall be equal to any input VAT which was incurred by HM Treasury or by any other Indemnified Person (as the case may be) in respect of that supply and which it is not able to recover from the relevant Tax Authority; and

(ii) if the Relevant Cost is for VAT purposes a disbursement incurred by HM Treasury or any other Indemnified Person as agent on behalf of the Company and the relevant supply is made to the Company for VAT purposes, such additional amount shall be equal to any amount in respect of VAT which was paid in respect of the Relevant Cost by HM Treasury or by any other Indemnified Person, and HM Treasury or the relevant other Indemnified Person shall use reasonable endeavours to procure that the relevant third party issues a valid VAT invoice in respect of the Relevant Cost to the Company.

(E) All payments by the Company under this Agreement, shall be paid without set-off or counterclaim, and free and clear of and without deduction or withholding for or on account of Tax, unless required by law. If any Tax is required by law to be deducted or withheld from or in connection with any such payment, the Company will:

(i) promptly upon becoming aware thereof, notify HM Treasury and, if different, the payee thereof;

(ii) make that deduction or withholding and any payment of Tax required in connection with that deduction or withholding within the time allowed and in the minimum amount required by law;

(iii) deliver to the payee such receipts, statements or other documents as the payee may reasonably request by way of evidence that the deduction or withholding has been made and any appropriate payment of Tax made to the relevant Tax Authority; and

(iv) increase the amount payable so that the amount received by the payee (after such deduction or withholding, including for the avoidance of doubt any additional deduction or withholding required as a result of such increase) is equal to the amount which the payee would have received if no such deduction or withholding had been made.

(F) If the Company makes an increased payment to HM Treasury or any other Indemnified Person in accordance with clause 7.3(B) or 7.3(E) and HM Treasury or such other Indemnified Person (as the case may be) determines in good faith that it has obtained, utilised and retained a relief from Tax or a refund of Tax which is attributable to such increased payment made by the Company, then HM Treasury or such other Indemnified Person (as the case may be) shall reimburse to the Company as soon as reasonably practicable an amount equal to such proportion of the Tax so saved or refunded as will leave HM Treasury or the relevant other Indemnified Person (as the case may be), after such reimbursement, in the same after-Tax position (having regard to the time value of money) that it would have been in if the circumstances giving rise to such additional payment had not arisen. For the avoidance of doubt, nothing in this Agreement shall require HM Treasury or any other Indemnified Person to disclose any information in relation to its Tax affairs to the Company or any person acting for or on behalf of the Company.

(G) The Company shall (and shall, to the extent possible, procure that each other Group Company will) prepare its Tax returns and any related claims, elections, notices and other correspondence, and conduct any related claims, appeals or proceedings, if and to the extent that they relate to the Tax treatment or Tax implications of the allotment and issue of the Acquisition Shares or the Contingent Capital Shares or any other matter contemplated by this Agreement (including, without limitation, the Contingent Capital Subscription), on a basis which is consistent with any principles agreed between any Group Company and HM Treasury and/or HMRC, or set out by HM Treasury or HMRC in each case in response to any request or inquiry on the relevant subject by any Group Company (or any of its advisers), in connection with (whether prior to, at the time of or following) RBS's accession to the APS except to the extent that the relevant Group Company is prevented from doing so as a result of any change in Applicable Law or IFRS (or other relevant generally accepted accounting principles) taking effect after the Accession Date.

(H) The Company shall promptly notify HM Treasury if it is or becomes aware at any time that any deduction or withholding for or on account of Tax is or is likely to be required to be made in respect of any dividend or other sum payable on

the Acquisition Shares or the Contingent Capital Shares. The Company shall co-operate with HM Treasury in completing any treaty forms or other procedural formalities reasonably requested by HM Treasury for the purpose of enabling the Company to pay any such dividends or other sums without any such deduction or withholding.

8. GENERAL UNDERTAKINGS

8.1 Compliance by the Company

The Company shall comply in all material respects with the CA 2006, FSMA, the Listing Rules and the DTRs and all other applicable laws and regulations, in each case insofar as they are relevant to the performance of this Agreement, the Acquisition, the Contingent Capital Commitment (including the allotment and issue of the Acquisition Shares and the Contingent Capital Shares) and the conversion of the B Shares into Ordinary Shares.

8.2 Announcements and communications by the Company

(A) Subject to this clause 8.2, the Company shall ensure that no member of the Group nor any of their respective Representatives shall make, publish, issue or release any announcement or public statement in relation to, or which refers to:

(i) the Acquisition, the Contingent Capital Commitment, the B Shares, the Dividend Access Share or this Agreement; or

(ii) HM Treasury in connection with the Acquisition, the Contingent Capital Commitment, the B Shares, the Dividend Access Share or this Agreement or otherwise in relation to HM Treasury as a shareholder in the Company,

(including in any annual report and accounts or other documents issued or made available to holders of securities, whether in electronic or paper written form, or in any oral announcement or statement) (each a "**Relevant Statement**").

(B) Notwithstanding clause 8.2(A):

(i) each member of the Group may (and each such member's Representatives may on its behalf) make, publish, issue or release a Relevant Statement in connection with (and at or around the time of) the Company's entry into of this Agreement (each a "**Signing Announcement**") and at the time of the Acquisition (each an "**Acquisition Announcement**"), provided that any such Signing Announcement or Acquisition Announcement is in form and substance satisfactory to HM Treasury (acting reasonably);

(ii) each member of the Group may (and each such member's Representatives may on its behalf) make, publish, issue or release any Relevant Statement if and to the extent required by:

(a) Applicable Law; or

(b) the rules of the Bank of England or of any securities exchange, clearing system or Authority (including the FSA) to which it is subject or submits,

(each, a "**Permitted Statement**") provided that any such Permitted Statement is made, published or issued in compliance with clauses 8.2(D) to 8.2(F) (inclusive); and

(iii) the Representatives of each member of the Group may make on behalf of that member Relevant Statements which are unscripted oral statements (each, a "**Permitted Oral Statement**"), provided that the Company shall use all reasonable endeavours to ensure that processes are in place with a view to ensuring that any such unscripted oral statements are consistent with any other Relevant Statements made in accordance with this clause 8.2 by or on behalf of the Company or any other member of the Group.

(C) Any Relevant Statement which does not constitute a Signing Announcement, an Acquisition Announcement, a Permitted Statement or a Permitted Oral Statement may be made, issued, published or released only if it is in form and substance satisfactory to HM Treasury.

(D) Any Permitted Statement:

(i) must be (in the honestly held opinion of any director or officer of the company making or authorising the Permitted Statement) accurate and not misleading;

(ii) subject to clause 8.2(F), must be made, published, issued or released only after giving as much prior notification as is reasonably practicable to, and consulting to the fullest extent reasonably practicable with, HM Treasury with a view to giving HM Treasury as much time as is reasonably practicable, in all the circumstances, to review and comment on such Permitted Statement; and

(iii) subject to clause 8.2(F), must reflect any amendments which HM Treasury (acting reasonably) proposes to be made, including in respect of references to HM Treasury, the Acquisition, the Contingent Capital Commitment, the B Shares, the Dividend Access Share and this Agreement and any other matter in relation to HM Treasury as a shareholder in the Company, save to the extent that any such proposed amendment:

(a) is not permitted by Applicable Law;

(b) conflicts with the fiduciary duties of any director or officer of the company making or authorising the Permitted Statement;

(c) (in the honestly held opinion of any director or officer of the company making or authorising the Permitted Statement) is not accurate or is misleading; or

(d) reflects a disagreement between the Company and HM Treasury as to the interpretation of this Agreement, the Contingent Capital Commitment, the B Share Terms or the Dividend Access Share Terms (or any provision of them) or any other matters, and the Company's interpretation of this Agreement, the Contingent Capital Commitment, the B Share Terms or the Dividend Access Share Terms or other matters is honestly believed by the director(s) or officer(s) of the company making or authorising the Permitted Statement to be accurate and not misleading.

(E) If in respect of any Permitted Statement, any member of the Group or any of its Representatives proposes, pursuant to clause 8.2(D)(iii), not to adopt, or does not adopt, any amendment proposed by HM Treasury, the Company shall procure that such member of the Group or Representative shall (to the extent reasonably practicable, prior to the making, publication, issuance or release of the relevant Permitted Statement or, if not reasonably practicable, promptly thereafter) provide to HM Treasury, in writing, reasons explaining why such amendments are not proposed to be, or were not, adopted.

(F) If any member of the Group, or any of its Representatives, proposes to make a Permitted Statement and either:

(i) notification to, and consultation with, HM Treasury prior to the making, publication, issuance or release of such Permitted Statement is not permissible under:

(a) Applicable Law; or

(b) the rules of the Bank of England or of any securities exchange, clearing system or Authority (including the FSA) to which it is subject or submits; or

(ii) the Permitted Statement must be made urgently such that prior notification to or consultation with HM Treasury is not reasonably practicable,

then the Company shall, as soon as permissible by Applicable Law or the relevant rules (as applicable) and as soon as is reasonably practicable, provide a copy of such Permitted Statement to HM Treasury, together with a notification providing reasonable details of the circumstances giving rise to the Permitted Statement, the nature of the relevant Permitted Statement and the basis upon which that member of the Group or Representative was prevented from complying with clause 8.2(D)(ii).

(G) The Company shall ensure that any Relevant Statement that is submitted to HM Treasury pursuant to clause 8.2(C) or 8.2(D) for HM Treasury's review, comment or approval is identified as a Relevant Statement or a Permitted Statement to which clause 8.2(C) or 8.2(D) (respectively) applies.

(H) The Company shall provide to HM Treasury, as early as reasonably practicable prior to its proposed issue, publication or release, an advanced draft of any material announcement to be made by any member of the Group in relation to the financial position of any member of the Group or the Group as a whole, even where such announcement does not constitute (in whole or in part) a Relevant Statement.

(I) HM Treasury and its Representatives may make, publish, issue or release any announcement or statement in relation to this Agreement, the Acquisition, the Contingent Capital Commitment, the B Shares or the Dividend Access Shares or any other matter pertaining to this Agreement that HM Treasury considers to be necessary, desirable or appropriate (acting reasonably), provided that the making, publication, issuance or release does not breach clause 8.4(C).

8.3 Regulatory filings

(A) Where any Group Company is to make any filing with, or is required to take any action by, a regulator which relates (directly or (to the extent known or which ought reasonably to be known by such Group Company) indirectly) to HM Treasury or its interest in Ordinary Shares, B Shares, Contingent Capital Shares or the Dividend Access Share, the Company shall, to the extent lawful to do so, use all reasonable endeavours to provide HM Treasury or to procure that HM Treasury is provided, in each case as early as practicable, with a copy of all communications with such regulator relating to such filing or action.

(B) Where, in consequence of any Group Company carrying on business in any jurisdiction, a Group Company is required to take any regulatory action or make any regulatory filing, the Company shall and shall procure that each Group Company shall:

(i) use all reasonable endeavours to determine at the earliest opportunity whether any similar action requires to be taken or filing requires to be made by HM Treasury in consequence of HM Treasury's interest in Ordinary Shares, B Shares, Contingent Capital Shares or the Dividend Access Share;

(ii) if it is determined that any such action requires to be taken or filing requires to be made by HM Treasury, inform HM Treasury of such requirement as soon as practicable following such determination, following which the Company and HM Treasury shall discuss in good faith the nature of, and agree an approach to, the actions or filings that require to be taken or made; and

(iii) if requested by HM Treasury, take steps to coordinate any such action that requires to be taken or filing that requires to be made by HM

Treasury with any action or filing that any Group Company is required to take or make, so as to ensure that actions are taken, and filings are made, on a uniform and consistent basis to the extent reasonably practicable.

(C) The Company undertakes:

(i) to provide to HM Treasury within 14 days of the date of this Agreement a schedule setting out the dates on which it anticipates making any regulatory filings within the following three calendar months and which relate or are likely to relate (directly or indirectly) to HM Treasury or to its interest in Ordinary Shares, B Shares, Contingent Capital Shares or the Dividend Access Share; and

(ii) for as long as HM Treasury has an interest in Ordinary Shares, B Shares, Contingent Capital Shares or the Dividend Access Share, to update such schedule at the end of each calendar month so as to include relevant regulatory filings which are anticipated to be made during the following three calendar months.

8.4 Provision of information

(A) The Company undertakes to provide such:

(i) publications, reports and other information with respect to the Company and each Group Company and their businesses; and

(ii) access to the books and records and management and other employees of the Company and each Group Company and their businesses,

as HM Treasury may reasonably request in order to allow HM Treasury (including any agent or nominee of HM Treasury) to comply fully with all legal and regulatory and other requirements under the laws and regulations of any jurisdiction applicable to HM Treasury (and/or any such agent or nominee of HM Treasury) and allow HM Treasury (and/or any such agent or nominee of HM Treasury) to fulfil its obligations to Parliament and to the National Audit Office, in each case as a direct or indirect consequence of its shareholdings in the Company, including as a result of or in connection with its acquisition of Acquisition Shares, the Contingent Capital Commitment and any Contingent Capital Subscription provided that the Company will not be required to comply with requests from HM Treasury only to the extent that the Company (acting reasonably) determines that compliance with such requests would have a materially detrimental effect on the Company's commercial operations.

(B) Without prejudice to clause 8.4(A), the Company shall and shall procure that each Group Company shall, from the date of this Agreement to the Acquisition Date provide HM Treasury or its representatives with such information, data and assistance as HM Treasury may reasonably require to enable it to ascertain whether the condition set out in clause 2.1(P) has been satisfied.

(C) Confidential information provided to HM Treasury (and/or any agent or nominee of HM Treasury) pursuant to clause 8.4(A) or 8.4(B) will be subject to the provisions of Condition 42 of the APS Conditions as if such information were Participant Confidential Information within the meaning of such condition, and such condition shall be deemed incorporated herein save that:

(i) references to the "Participant" shall be deemed to be references to the Company;

(ii) references to the "Scheme Documents" in such Condition shall be deemed to be references to this Agreement and the Cashbox Documents;

(iii) Conditions 42.11(B), 42.11(G), 42.29 and 42.30 shall be excluded; and

(iv) the reference in Condition 42.23 to the "the cessation of the Participant's participation in the Scheme" shall be deemed to be a reference to "HM Treasury ceasing to hold any Ordinary Shares, B Shares or the Dividend Access Share".

8.5 Waiver of pre-emption rights

HM Treasury agrees that, if and to the extent they arise but without prejudice to any adjustments arising under the B Share Terms or the Dividend Access Share Terms:

(A) it shall, and shall direct its nominee(s) to, waive and exercise such voting rights as it may have to waive any pre-emption rights it may have in respect of any future issue of equity securities (other than B Shares or Dividend Access Shares) by the Company under section 561(1) of CA 2006 as a result of its holding of B Shares and/or the Dividend Access Share; and

(B) it shall vote the Dividend Access Share and any B Shares held by it, and shall direct its nominee(s) to vote the Dividend Access Share and any B Shares held by such nominee, in each case to the extent that such Dividend Access Share and B Shares have voting rights, in favour of any special resolution proposed by the Board pursuant to section 570(2) of CA 2006 in respect of the disapplication of any such pre-emption rights in respect of any future issue of equity securities (other than B Shares and further Dividend Access Shares) by the Company.

8.6 Restriction on conversion and voting of B Shares

(A) HM Treasury agrees that it shall not convert, or cause to be converted into Ordinary Shares any B Shares held by it or by its nominee if and to the extent that the Ordinary Shares arising on the conversion of such B Shares would result in HM Treasury holding directly or indirectly more than 75 per cent. of the total issued Ordinary Shares.

(B) HM Treasury agrees that it shall not vote, nor shall it direct its nominee(s) to vote, whether on a show of hands or on a poll, in respect of B Shares or the Dividend Access Share held by it but only if and to the extent that votes cast on

such B Shares and the Dividend Access Share, together with any other votes that HM Treasury and its nominee(s) are entitled to cast in respect of any Ordinary Shares held by or on behalf of it, would exceed 75 per cent. of the total votes eligible to be cast on a resolution presented at a general meeting of the Company. The restriction set out in this clause 8.6(B) is without prejudice to, and does not affect or limit, any voting rights that HM Treasury and its nominee(s) may have at any class meeting of the holders of B Shares or Dividend Access Share or in respect of any other class or classes of share in the Company.

8.7 B Share Terms and Dividend Access Share Terms

(A) In the event that the B Shares or Dividend Access Share cease to be eligible as Core Tier 1 Capital then, if and to the extent that B Shares or the Dividend Access Share are held by or on behalf of HM Treasury and/or the Contingent Capital Commitment remains outstanding in respect of any Contingent Capital Shares at such time, HM Treasury and the Company shall negotiate in good faith with a view to agreeing such amendments to the B Share Terms and/or the Dividend Access Share Terms as may be necessary, after consultation with the FSA, to enable the B Shares and Dividend Access Share to be eligible as Core Tier 1 Capital. The Company shall (with the consent of HM Treasury, such consent not to be unreasonably withheld or delayed) make such public announcements as may be necessary or appropriate as a result of any such changes.

(B) Until the later of the end of the Contingent Capital Period and HM Treasury ceasing to hold any B Shares, the Company undertakes that, notwithstanding any provision of the B Share Terms and the Dividend Access Share Terms, it will not amend or seek to amend the B Share Terms or the Dividend Access Share Terms without the prior written consent of HM Treasury.

(C) The Company agrees that it shall pay any dividend on the B Shares and on the Dividend Access Share by a direct transfer of funds to HM Treasury's bank account in accordance with the B Share Terms and the Dividend Access Share Terms (as the case may be) notwithstanding the right under the B Share Terms and the Dividend Access Share Terms to effect payment by other means.

8.8 Nature of relationship

The Company acknowledges and agrees that HM Treasury is acting solely pursuant to a contractual relationship with the Company on an arm's length basis with respect to the Acquisition, the Cashbox Documents and the Contingent Capital Commitment (including in connection with determining the terms of the Acquisition and the Contingent Capital Commitment) and not, in relation to the Acquisition, the Cashbox Documents or the Contingent Capital Commitment as financial advisers or fiduciaries to the Company or any other person. Additionally, the Company acknowledges that HM Treasury is not advising the Company or any other person as to any legal, tax, investment, accounting or regulatory matters in any jurisdiction. The Company shall consult with its own advisors concerning such matters and shall be responsible for making its own independent investigation and appraisal of the transactions contemplated hereby and

HM Treasury shall not have any responsibility or liability to the Company with respect thereto. The Company further acknowledges and agrees that any review by HM Treasury (or its advisers and agents) of the Company, the Relevant Documents and other matters relating thereto will be performed solely for the benefit of HM Treasury and shall not be on behalf of the Company or any other person.

8.9 Co-operation in relation to approvals, authorisations and consents

HM Treasury and the Company shall use all reasonable endeavours to procure that all approvals, authorisations and consents as may be required from any government, state or other regulatory body shall have been obtained in order that the conditions set out in clauses 2.1(D) and 2.1(E) as soon as practicably possible. The Company and HM Treasury shall co-operate with each other (at the cost of the Company) in order that the conditions set out in clauses 2.1(D) and 2.1(E) may be satisfied, which co-operation shall include the Company:

(A) promptly providing to HM Treasury and to HM Treasury's lawyers and other advisers where appropriate, any necessary information and documents reasonably requested by HM Treasury for the purpose of obtaining such approvals, authorisations, permits and consents and making such necessary filings;

(B) promptly notifying HM Treasury or HM Treasury's lawyers and other advisers where appropriate, of any material communications received in the course of obtaining such approvals, authorisations, permits and consents and making such necessary filings; and

(C) generally supporting HM Treasury in obtaining such approvals, authorisations, permits and consents and making such necessary filings when reasonably requested by HM Treasury.

8.10 Issue of shares into clearing or depositary system

(A) The Company undertakes to HM Treasury that it shall not issue any Acquisition Shares or Contingent Capital Shares pursuant to this Agreement to any person referred to in section 67 or 70 of the Finance Act 1986 or section 93 or 96 of the Finance Act 1986 (such that stamp duty or SDRT would apply at the rate determined under any such section) unless HM Treasury requests that such Acquisition Shares or Contingent Capital Shares are to be so issued.

(B) The Company undertakes to HM Treasury that no Cashbox Ordinary Shares or Cashbox Preference Shares shall be issued or transferred to any person referred to in section 67 or 70 of the Finance Act 1986 or section 93 or 96 of the Finance Act 1986, and that no agreement to issue or transfer any Cashbox Ordinary Shares or Cashbox Preference Shares to any person referred to in section 67 or 70 of the Finance Act 1986 or section 93 or 96 of the Finance Act 1986 shall be entered into or made, unless HM Treasury requests that such Cashbox Ordinary Shares or Cashbox Preference Shares are to be so issued or transferred or requests that such an agreement is to be entered into or made.

(C) The Company undertakes to HM Treasury that, if any cashbox or similar structure is used to implement the acquisition of any Contingent Capital Shares, no shares in any cashbox or similar company involved in such structure shall be issued or transferred to any person referred to in section 67 or 70 of the Finance Act 1986 or section 93 or 96 of the Finance Act 1986, and no agreement to issue or transfer any such shares to any person referred to in section 67 or 70 of the Finance Act 1986 or section 93 or 96 of the Finance Act 1986 shall be entered into or made, unless HM Treasury requests that such shares are to be so issued or transferred or requests that such an agreement is to be entered into or made.

(D) The Company undertakes to HM Treasury that, if any cashbox or similar structure is used to implement the acquisition of any B Shares as contemplated in clause 6.4, no shares in any cashbox or similar company involved in such structure shall be issued or transferred to any person referred to in section 67 or 70 of the Finance Act 1986 or section 93 or 96 of the Finance Act 1986, and no agreement to issue or transfer any such shares to any person referred to in section 67 or 70 of the Finance Act 1986 or section 93 or 96 of the Finance Act 1986 shall be entered into or made, unless HM Treasury requests that such shares are to be so issued or transferred or requests that such an agreement is to be entered into or made.

8.11 Restriction on cash distributions

(A) Subject to clause 8.11(B), the Company undertakes that it shall not, and shall procure that no Group Company shall, at any time before the Contingent Capital Expiry Date:

(i) pay or make any dividends or other distributions or make any interest or coupon payment or payment of a similar nature (in each case whether in cash or otherwise) on any shares, Innovative Tier 1 Instruments or Upper Tier 2 Instruments issued by the Company or by any other Group Company (other than Mandatory Securities) and that it shall not, and shall procure that no Group Company shall, set aside any sum for the payment of any such dividends or amounts; and

(ii) redeem, purchase or otherwise acquire for any consideration any shares, Innovative Tier 1 Instruments or Upper Tier 2 Instruments issued by the Company or by any Group Company or any depository or other receipts or certificates representing such securities or instruments, or set aside any sum, or establish any sinking fund for the redemption, purchase or other acquisition of such securities or instruments or any depository or other receipts or certificates representing such securities or instruments,

the result or consequence of which, in any case, would be that following such occurrence the Core Tier 1 Ratio would remain or fall below six per cent.

(B) The restrictions set out in clause 8.11(A) shall not apply to:

(i) the payment or making of any dividends or other distributions or the setting aside of any sum for the payment of such dividends or distributions:

(a) by any wholly owned Group Company to any other wholly owned Group Company; and

(b) by any non-wholly owned Group Company to any person which is not a wholly owned Group Company to the extent the payment or making of such dividends or other distributions or the setting aside of any sum for the payment of such dividends or distributions is required by the terms of any legally binding obligation in existence at the date of this Agreement;

(ii) the redemption or purchase or acquisition for consideration by any wholly owned Group Company of any securities or instruments issued by any other wholly owned Group Company or of any depository or other receipts or certificates representing such securities or instruments, or the setting aside of any sum, or the establishment of any sinking fund for the redemption, purchase or other acquisition of such securities or instruments or any depository or other receipts or certificates representing such securities or instruments;

(iii) the redemption or purchase or acquisition for consideration by any Group Company of any securities or instruments issued by any non-wholly owned Group Company or of any depository or other receipts or certificates representing such securities or instruments, or the setting aside of any sum, or the establishment of any sinking fund for the redemption, purchase or other acquisition of such securities or instruments or any depository or other receipts or certificates representing such securities or instruments where such redemption, purchase or acquisition is required to be made by the terms of any legally binding obligation in existence at the date of this Agreement;

(iv) the payment of coupons on the ABN Securities for so long as permitted under the State Aid Commitment Deed;

(v) the payment or making of dividends or other distributions (whether in cash or in kind) or return of capital in any other form:

(a) by subsidiaries and/or subsidiary undertakings of RFS Holdings BV to their shareholders and ultimately to RFS Holdings BV; and

(b) by RFS Holdings BV to shareholders of RFS Holdings BV,

in each case to the extent required (in the reasonable opinion of the Company) to achieve segregation, separation (being the transfer of the Dutch State acquired businesses in the ABN AMRO Group out of the ABN AMRO Group) and the capital restructuring of RFS Holdings BV;

(vi) the purchase of Ordinary Shares in connection with any employee share scheme of the Company or any member of the Group;

(vii) any action taken by the Company or any member of the Group pursuant to any liability management exercise, which exercise has been approved in advance by HM Treasury;

(viii) any action taken in accordance with the B Share Terms or the terms of the Convertible Preference Shares in respect of their conversion to Ordinary Shares;

(ix) any action which has no effect on, or has the effect of increasing, the Core Tier 1 Ratio; and

(x) any other action taken by the Company or any member of the Group with the prior approval of HM Treasury.

(C) The Company undertakes that it shall not, and shall procure that no Group Company shall, without the prior written consent of HM Treasury, at any time after the date of this Agreement and before the Contingent Capital Expiry Date, create any legally binding obligations pursuant to which:

(i) any non-wholly owned Group Company shall be liable to pay or make any dividends or other distributions or set aside any sum for the payment of such dividends or distributions to any person which is not a wholly owned Group Company; or

(ii) any Group Company shall be required to redeem, purchase or acquire for consideration any securities or instruments issued by any non-wholly owned Group Company or any depository or other receipts or certificates representing such securities or instruments, or to set aside of any sum, or to establish any sinking fund for the redemption, purchase or other acquisition of such securities or instruments or any depository or other receipts or certificates representing such securities or instruments,

if the result or consequence of which, in each case, would be that following such occurrence the Core Tier 1 Ratio would remain or fall below six per cent.

8.12 Fall in Core Tier 1 Ratio

(A) If, at any time before the Contingent Capital Expiry Date the Core Tier 1 Ratio falls, or is expected by the Directors to fall at any time over the following six month period, below six per cent. the Company shall:

(i) cause such directors, employees, representatives and advisers of any member of its Group as HM Treasury may reasonably require to attend meetings with HM Treasury, its employees, representatives and advisers (in conjunction with UK Financial Investments Limited, where HM Treasury considers appropriate) on such notice as HM Treasury

may consider appropriate in the circumstances to discuss the regulatory capital position of the Group and proposals to increase the Core Tier 1 Ratio to above six per cent.;

(ii) forthwith submit to HM Treasury a forecast showing the expected changes to the Core Tier 1 Ratio, Tier 1 Capital Ratio, Total Capital Ratio and Risk Weighted Assets over the 24 month period following the date on which the Core Tier 1 Ratio so fell, or is expected to fall, below six per cent. and provide HM Treasury with updates to such forecast on a weekly basis;

(iii) if any Core Tier 1 Ratio which has been verified by an Appropriate Person is below 5.25 per cent. and is forecast to fall below the Trigger Core Tier 1 Ratio within two calendar months of the date of such verification, then HM Treasury shall be entitled to require the Company to procure a full audit of the capital figures underlying the Core Tier 1 Ratio;

(iv) prepare a draft strategy to restore the Core Tier 1 Ratio to above six per cent. including, to the extent practicable in light of market conditions at the time, a realistic plan to raise capital from third parties, within such reasonable timescale as HM Treasury may notify to the Company, and consult with and take account of any representations that may be made by HM Treasury on such strategy prior to its finalisation; and

(v) use its best endeavours to raise additional capital other than through a Contingent Capital Subscription so as to increase the Core Tier 1 Ratio to six per cent. or higher.

(B) If at any time the Directors reasonably believe that the Core Tier 1 Ratio has fallen below the Trigger Core Tier 1 Ratio, the Company shall forthwith determine the Core Tier 1 Ratio and shall have such percentage verified by an Appropriate Person to a standard equivalent to that used in connection with the Accounts as soon as practicable and shall immediately thereafter disclose the Core Tier 1 Ratio to HM Treasury.

8.13 Repurchase and further issuances

(A) HM Treasury and the Company acknowledge it is their current expectation that in relevant circumstances, and acknowledging the conversion feature applicable to the B Shares set out in the B Share Terms, the Company will repurchase the B Shares if it is prudent and practicable. Such repurchase would be subject to FSA approval and take account of the Regulatory Group's capital position at the time of the proposed repurchase and prevailing market conditions. The B Shares can be repurchased using replacement Tier 1 Capital, retained earnings, the proceeds of disposals (up to an amount equivalent to the Core Tier 1 benefit arising from such disposals), gross reductions in Risk Weighted Assets or as otherwise permitted by the FSA.

(B) If during the Contingent Capital Period the Company or another member of the Group issues any security or grants any option containing provisions which enable conversion into capital or the ability to call for capital on the occurrence of specified contingencies, the Company agrees, and agrees to procure, that:

(i) the ability to effect the conversion or to make the call will not require any prior Contingent Capital Subscription(s) to take, or have taken, place in respect of some or all of the Contingent Capital Shares; and

(ii) if any ability to effect the conversion or make the call is subject to a requirement that the Core Tier 1 Ratio falls below a certain level, such level is higher than the Trigger Core Tier 1 Ratio.

8.14 Related party transactions

HM Treasury undertakes that, for as long as it is a Substantial Shareholder of the Company, it shall not vote any Ordinary Shares it holds, and shall direct that its nominee(s) shall not vote any Ordinary Shares held on its behalf, on any resolution proposed at a general meeting of the Company to approve a related party transaction for the purposes of Chapter 11 of the Listing Rules if HM Treasury is the related party for the purposes of such transaction.

8.15 Conversion of B Shares

(A) The Company represents, warrants and undertakes to HM Treasury on the date of this Agreement and on each Acquisition Warranty Date that:

(i) as at 30 September 2009, the amount standing to the credit of its share premium account is [***]

(ii) as at 30 September 2009 no amount standing to the credit of the share premium account would require to be capitalised to effect the conversion of all of the Convertible Preference Shares in accordance with their terms of issue;

(iii) there has been no change to the amount specified in clause 8.15(A)(i) since 30 September 2009 as would adversely affect the ability of the Company to convert the Acquisition B Shares and the Contingent Capital Shares into ordinary shares in accordance with the B Share Terms if such conversion were affected on the date of this Agreement or on each Acquisition Warranty Date; and

(iv) no sum proposed to be capitalised pursuant to any of the Resolutions is required for the purpose of Article 148A of the Articles to pay any dividends on any shares carrying a fixed cumulative preferential dividend.

(B) The Company undertakes to HM Treasury that, until the later of the end of the Contingent Capital Period and the date on which HM Treasury ceases to hold any B Shares:

(i) the only reductions liable to be made to its share premium account (other than in respect of (i) a capitalisation issue of B Shares made in connection with any conversion of B Shares in accordance with the B Share Terms, (ii) a Bonus Issue in accordance with the Dividend Access Share Terms or (iii) a scrip issue of B Shares made in accordance with Articles and the B Share Terms) will be in respect of the conversion of the Convertible Preference Shares in accordance with their terms of issue and the Articles and in respect of the writing-off of any commission paid on any future issue of shares against the share premium generated on such issue in accordance with section 610(2)(b) of CA 2006;

(ii) it shall not, without the prior written consent of HM Treasury, issue any convertible securities, the conversion of which would require the capitalisation of any amount standing to the credit of the Company's share premium account or which would otherwise prejudice or adversely affect any conversion of the B Shares;

(iii) it shall not, without the prior written consent of HM Treasury, issue any shares carrying a fixed cumulative preferential dividend the payment of any dividend on which shares would or might give rise to any need to capitalise any of the Company's reserves in accordance with Article 148(A) of the Articles;

(iv) it shall on a regular basis (being no less than semi-annually) provide HM Treasury with reasonable details of the amount then standing to the credit of its share premium account;

(v) notwithstanding the provisions of the B Share Terms and, in particular the exceptions to the undertakings contained therein, except as required by law and otherwise in connection with (i) the conversion of the B Shares and the Convertible Preference Shares in accordance with their respective terms of issue and the Articles, (ii) a Bonus Issue in accordance with the Dividend Access Share Terms, (iii) a scrip issue of B Shares made in accordance with the Articles and the B Share Terms and (iv) the writing-off of any commission paid on any future issue of shares against the share premium generated on such issue in accordance with section 610(2)(b) of CA 2006, it shall not, directly or indirectly take or omit to take any action designed to or which results in or which might reasonably be expected to cause or result in, the amount standing to the credit of its share premium account, capital redemption reserve or merger reserve being reduced.

(vi) it shall not, directly or indirectly take or omit to take any action designed to or which results in or which might reasonably be expected to cause or result in any increase in the nominal value of the Ordinary Shares without the prior written consent of HM Treasury;

(vii) the non-payment or deferral of payment of any dividends or other distributions or any interest or coupon payment or payment of a similar

nature (whether in cash or otherwise) on any securities issued by the Company or any other Group Company (whether pursuant to the State Aid Commitment Deed or otherwise) will not, and the Company shall not, directly or indirectly, take or omit to take any action designed to or which will or which might reasonably be expected to, prevent the conversion of the B Shares in accordance with the B Share Terms; and

(viii) if at any time HM Treasury reasonably believes that the Company has or will have insufficient reserves to permit the conversion of all B Shares held by it from time to time, it shall, promptly following receipt of notice to such effect from HM Treasury and at the option of the Company, either:

(a)

(1) allot and issue to HM Treasury, fully-paid by way of capitalisation of its share premium account and/or such other reserves as may be available for that purpose, such number of B Shares as shall bring the total nominal value of all of the B Shares held by HM Treasury to at least the total nominal value of the Ordinary Shares into which such B Shares may be converted in accordance with the B Share Terms;

(2) consolidate into one B Share all of the B Shares held by HM Treasury following such allotment and issue; and

(3) sub-divide such consolidated B Share into B Shares each having a nominal value equal to the nominal value of the Ordinary Shares;

or

(b) take such actions and steps as may be required by HM Treasury to sub-divide each Ordinary Share into an ordinary share with a nominal value equal to or less than the nominal value of a B Share and having the same rights (save as relates to the nominal amount paid up thereon) as one Ordinary Share had prior to such sub-division (a "**New Ordinary Share**") and such number of Non-Voting Deferred Shares as have the same aggregate nominal value as the difference between the nominal value of one Ordinary Share and one New Ordinary Share pursuant to the authorities obtained at the GM, provided always that the Company shall not otherwise take any such actions or steps without the prior consent of HM Treasury for as long as HM Treasury continues to hold any B Shares

(C) The Company agrees that, if and to the extent HM Treasury is converting any B Shares into ordinary shares in accordance with the B Share Terms, and notwithstanding the B Share Terms, it shall effect such conversion in a manner

specifically described in the B Share Terms and shall not exercise its discretion to apply any other method of effecting such conversion without the prior consent of HM Treasury.

8.16 Enforcement of rights

If the Company is or may be entitled to enforce any claim against, or make any recovery from, the Auditors in connection with the report(s) prepared by the Auditors in relation to the Acquisition and the Contingent Capital Commitment referred to at paragraph 11 of Part I of Schedule 2 or paragraph 5 of Part II of Schedule 2 (if any), the Company undertakes to HM Treasury that it shall inform HM Treasury promptly upon becoming aware of its entitlement or potential entitlement and shall, or shall procure that the relevant Group Company shall, on the reasonable request of HM Treasury and subject to the Company having received advice from a leading firm of solicitors or a leading Queen's Counsel, in each case acceptable to HM Treasury (in respect of which advice HM Treasury shall be entitled to participate in the preparation of any instructions and in any discussions and meetings with such firm of solicitors or Queen's Counsel relating thereto) that such claim or attempted recovery would stand a reasonable prospect of success, use all reasonable endeavours to enforce such claim or right of recovery (keeping HM Treasury informed of any action so taken).

9. REPRESENTATIONS AND WARRANTIES

9.1 Representations and Warranties

(A) The Company represents, warrants and undertakes to HM Treasury that the representations, warranties and undertakings set out in Part I of Schedule 3 are true, accurate and not misleading as at the date of this Agreement.

(B) The Company agrees with HM Treasury that each statement set out in Parts I and II of Schedule 3 will be true and accurate and not misleading on the Posting Date and on each Acquisition Warranty Date, in each case by reference to the facts and circumstances then existing and will be treated as Warranties given and/or repeated on such dates.

(C) The Company agrees with HM Treasury that, subject to clause 9.2(B), each statement set out in Schedule 4 will be true and accurate and not misleading on each Contingent Capital Warranty Date, in each case by reference to the facts and circumstances then existing and will be treated as Warranties given and/or repeated on such dates.

(D) Warranties shall be deemed to be repeated under this clause in relation to the relevant document, announcement or event on the basis that any reference in any such Warranty to something being done or something being the case in relation to such document, announcement or event which is expressed in the future tense shall be regarded as being expressed in the present tense.

9.2 Breach of Warranty, Specified Events and disclosure

(A) Subject to clause 9.2(B), the Company will notify HM Treasury as soon as reasonably practicable if it comes to the knowledge of the Company or any of the Directors that any of the Warranties was breached or untrue or inaccurate when made and/or that any of the Warranties is or would be breached or untrue or inaccurate if it were to be repeated by reference to the facts and circumstances or the knowledge, opinions, intentions or expectations of any of the Directors subsisting at any time between the date of this Agreement and the Acquisition Date or between each Contingent Capital Notice Date and each Contingent Capital Completion Date, as the case may be. The Company will make all reasonable enquiries to ascertain whether any of the Warranties was, or if so repeated would be, breached or untrue or inaccurate.

(B) Any fact, matter or circumstance that causes any of the Contingent Capital Warranties (other than the Contingent Capital Warranties set out at paragraphs 1 (except paragraphs 1.2, 1.4 and 1.10, 2, 3 (except paragraph 3.4) and 6 of Schedule 4) to be breached or untrue, inaccurate or misleading shall not constitute or give rise to a breach of such Contingent Capital Warranty if such fact, matter or circumstance has been fairly disclosed to HM Treasury on the Contingent Capital Notice Date or prior to the Contingent Capital Completion Date (as the case may be), such disclosure to be identified as being made for the purposes of this Agreement.

(C) The Company undertakes to HM Treasury:

(i) promptly to give notice to HM Treasury of the occurrence of any Specified Event or the occurrence of any event or the arising of any fact, matter or circumstance that is likely to constitute a Specified Event, which shall come to the knowledge of the Company between the date of this Agreement and the Acquisition Date;

(ii) promptly to give notice to HM Treasury of and to disclose fairly to HM Treasury any fact, matter or circumstance which constitutes or is likely to constitute a Specified Event and which shall come to the knowledge of the Company between each Contingent Capital Notice Date and the relevant Contingent Capital Completion Date, such disclosure to be identified as being made for the purposes of this Agreement; and

(iii) not to cause and to use all reasonable endeavours not to permit, and to procure that each Group Company and the Directors do not cause and use all reasonable endeavours not to permit, any Specified Event to occur between the date of this Agreement and the Acquisition Date and between each Contingent Capital Notice Date and the related Contingent Capital Completion Date, provided that any breach of the covenant in this clause 9.2(C)(iii) will not give rise to a remedy in damages against the Company in respect of such breach in circumstances where this Agreement has been terminated pursuant to clause 12 as a result of such breach being, in HM Treasury's sole

judgement, material in the context of the Group and/or the context of the Acquisition or the Contingent Capital Commitment.

(D) For the purpose of clause 9.2(C), each of the Warranties and the undertakings contained in this clause 9 shall take effect with the exclusion of any qualification contained therein with respect to the knowledge, information, awareness or belief of the Company or any of the Directors or any other person.

9.3 Continuing nature of Warranties

The Warranties shall remain in full force and effect notwithstanding completion of the Acquisition, each and any Contingent Capital Subscription and all other matters and arrangements referred to in or contemplated by this Agreement.

9.4 Reliance on Warranties

The Company acknowledges that HM Treasury is entering into this Agreement in reliance on the Warranties and each such representation, warranty and undertaking shall not be limited by reference (express or implied) to the terms of any other representation, warranty or undertaking or any other provision of this Agreement.

9.5 Construction of Warranties

For the purposes of this clause 9, Schedule 3 and Schedule 4, references to the knowledge, awareness or belief of the Directors or the Company in respect of matters relating to the Group shall be read and construed as references to such knowledge, awareness or belief after due and careful enquiry.

10. INDEMNITY

10.1 Indemnity

The Company agrees to fully and effectively indemnify and hold harmless each Indemnified Person on an after-Tax basis from and against any and all Losses or Claims, whatsoever, as incurred (and whether or not the relevant Loss or Claim is suffered or incurred or arises in respect of circumstances or events existing or occurring before, on or after the date of this Agreement and regardless of the jurisdiction in which such Loss or Claim is suffered or incurred) if such Losses or Claims, arise, directly or indirectly, out of, or are attributable to, or connected with, anything done or omitted to be done by any person (including by the relevant Indemnified Person) in connection with the Acquisition, the Cashbox Documents, the Contingent Capital Commitment or the Circular (to the extent it relates to the Acquisition or the Contingent Capital Commitment), or this Agreement or any other agreement, in each case to the extent relating to the Acquisition, the Cashbox Documents or the Contingent Capital Commitment, including but not limited to:

(A) any and all Losses or Claims whatsoever, as incurred, arising out of the Relevant Documents, or any of them (or any amendment or supplement to any of them) not containing or fairly presenting, or being alleged not to contain or not to fairly present, all information required to be contained therein, or arising

out of any untrue or inaccurate statement or alleged untrue or inaccurate statement of a material fact contained in the Relevant Documents, or any of them (or any amendment or supplement to any of them), or the omission or alleged omission therefrom of a fact necessary in order to make the statements therein not misleading in any material respect, or any statement therein being or being alleged to be in any respect not based on reasonable grounds, in the light of the circumstances in which they were made; and/or

(B) any and all Losses or Claims whatsoever, as incurred, arising out of any breach or alleged breach by the Company or CashboxCo of any of their respective obligations, including any of the Warranties, or the representations, covenants and undertakings set out in this Agreement, or out of any disclosure by the Company to HM Treasury against any Warranties given in terms of this Agreement being inaccurate, incomplete or misleading, or out of the arrangements contemplated by the Relevant Documents or any of them (or any amendment or supplement to any of them), in each case to the extent relating to the Acquisition or the Contingent Capital Commitment, or this Agreement, to the extent relating to the Acquisition or the Contingent Capital Commitment, or any other agreement relating to the Acquisition or the Contingent Capital Commitment (including, without limitation, the Cashbox Documents); and/or

(C) any and all Losses or Claims whatsoever, as incurred, in connection with or arising out of the issue, publication or distribution of the Relevant Documents, or any of them (or any amendment or supplement to any of them); and/or

(D) any and all Losses or Claims whatsoever, as incurred, in connection with or arising out of any failure or alleged failure by the Company or any of the Directors or any of its or his agents, employees or advisers to comply with the CA 2006, FSMA, the FSA Rules, the Listing Rules, the Prospectus Rules, the DTRs, the rules and regulations of the LSE or any other requirement or statute or regulation in any jurisdiction in relation to the Acquisition or the Contingent Capital Commitment, or the arrangements contemplated by the Relevant Documents (including, without limitation, the issue and allotment of the Acquisition Shares and the Contingent Capital Shares), or any of them (or any amendment or supplement to any of them), or this Agreement, in each case to the extent relating to the Acquisition or the Contingent Capital Commitment, or any other agreement relating to the Acquisition or the Contingent Capital Commitment (including, without limitation, the Cashbox Documents),

PROVIDED THAT, the indemnity contained in this clause 10.1 shall not apply to any Losses or Claims (i) (otherwise than in connection with the matters referred to in clauses 10.1(A), (B), (C) and (D)) to the extent finally and judicially determined to have arisen as a result of the fraud, bad faith or wilful default of that Indemnified Person or (ii) if and to the extent arising out of a decline in market value of the Acquisition Shares or the Contingent Capital Shares (or any Ordinary Shares arising on the conversion of such Acquisition Shares or Contingent Capital Shares) suffered or incurred by HM Treasury as a result of it having acquired the Acquisition Shares or the Contingent Capital Shares pursuant to the terms of this Agreement, save to the extent such decline is caused by or results from or is attributable to or would not have arisen but for (in each case directly or indirectly) the neglect or default of the Company in relation to the

content, publication, issue or distribution of the Relevant Documents or any breach by the Company of any of its obligations under this Agreement, including any of the Warranties, representations, undertakings or covenants. This clause 10.1 shall not apply to any Loss or Claim in respect of Tax which is covered by clause 7.3 (or which would have been so covered but for any exclusion contained therein).

10.2 Claims

(A) Each Indemnified Person shall and shall procure that its Indemnified Persons shall:

(i) give notice as promptly as reasonably practicable to the Company of any action commenced against it after receipt of a written notice of any Claim or the commencement of any action, claim, suit, investigation or proceeding in respect of which a Claim for indemnification may be sought under this clause 10; and

(ii) as promptly as reasonably practicable notify the Company after any such action is formally commenced (by way of service with a summons or other legal process giving information as to the nature and basis of the claim),

and shall keep the Company informed of, and, to the extent reasonably practicable, consult with the Company in relation to, all material developments in respect thereof, but in each case, only insofar as may be consistent with the terms of any relevant insurance policy and provided (in each case) that to do so would not, in such Indemnified Person's view (acting in good faith), be prejudicial to it (or to any Indemnified Person connected to it) or to any obligation of confidentiality or other legal or regulatory obligation which that Indemnified Person owes to any third party or to any regulatory request that has been made of it. However, the failure to so notify the Company and keep the Company informed shall not relieve the Company from any liability hereunder to the extent it is not materially prejudiced as a result thereof and in any event shall not relieve the Company from any liability which it may have otherwise than on account of the indemnity set out in this clause 10.

(B) Legal advisers for Indemnified Persons shall be selected by HM Treasury. The Company may participate at its own expense in the defence of any action commenced against it provided however that legal advisers for the Company shall not (except with the consent of the relevant Indemnified Person) also be legal advisers for the Indemnified Person.

(C) The Company shall not, without the prior written consent of HM Treasury (acting in good faith), settle or compromise or consent to the entry of any judgment with respect to any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever in respect of which indemnification or contribution could be sought under this clause 10 or clause 11 (whether or not the Indemnified Persons are actual or potential parties thereto), unless such settlement, compromise or consent:

(i) includes an unconditional release of each Indemnified Person from all liability arising out of such litigation, investigation, proceeding or claim; and

(ii) does not include a statement as to or an admission of fault, culpability or a failure to act by or on behalf of any Indemnified Person.

10.3 Continuing effect

The provisions of this clause 10 will remain in full force and effect notwithstanding the completion of all matters and arrangements referred to in or contemplated by this Agreement.

11. CONTRIBUTION

11.1 Indemnification unavailable or insufficient

If and to the extent that the indemnification provided for in clause 10 is unavailable to or insufficient to hold harmless (to the extent specified in clause 10) an Indemnified Person in respect of any Loss or Claim referred to therein, then the Company, in lieu of indemnifying such Indemnified Person thereunder, shall contribute to the amount paid or payable by such Indemnified Person as a result of such Loss or Claim in such proportion as is appropriate to reflect the relative fault of the Company on the one hand and HM Treasury on the other in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations.

11.2 No over-recovery

Notwithstanding the provisions of this clause 11, HM Treasury will not be entitled to recover from the Company by way of contribution under clause 11.1 any amount in excess of the amount that the Company would have been liable to pay to HM Treasury (as the case may be) had the indemnification provided for in clause 10 been available to the extent provided in that clause in respect of the relevant Loss or Claim.

11.3 Determination of contribution

The parties hereto agree that it would not be just and equitable if contribution pursuant to this clause 11 were determined by pro rata allocation or by any other method of allocation that does not take account of the equitable considerations referred to in clause 11.1. The amount paid or payable by an Indemnified Person as a result of the Loss or Claim referred to in clause 11.1 shall be deemed to include, any legal or other expenses incurred by such Indemnified Person in connection with investigating or defending any such action or claim.

11.4 Construction of contribution agreements

The contribution agreements contained in this clause 11 are in addition to and shall not be construed to limit, affect or prejudice any liability which the Company may otherwise

have to the Indemnified Persons referred to above or any other right or remedy in law or otherwise available to any Indemnified Person.

12. TERMINATION

12.1 HM Treasury's entitlement to terminate

(A) If at any time a Termination Event occurs, HM Treasury may, in its sole discretion, give notice to the Company to the effect that this Agreement shall terminate and cease to have effect.

(B) If between the date of this Agreement and the Acquisition Date it shall come to the notice of HM Treasury that there has been a breach of any of the Warranties or of any other provision of this Agreement or any of the Cashbox Agreements, which, in any case, in HM Treasury's sole judgement, is material in the context of the Group and/or the context of the Acquisition or the Contingent Capital Commitment, HM Treasury may forthwith give notice thereof to the Company in which case clause 12.1(C) shall apply.

(C) Where this clause applies and notice has been given to the Company pursuant to clause 12.1(B) by HM Treasury, HM Treasury may in its sole discretion:

(i) allow the Acquisition to proceed; or

(ii) if, having consulted with the Company, it does not consider it necessary that the arrangements contemplated by this Agreement which have not already proceeded to completion proceed to completion in order to maintain the financial stability of the United Kingdom, give notice to the Company at any time prior to the Acquisition Date to the effect that this Agreement shall terminate and cease to have effect.

12.2 Consequences of termination

In the event that this Agreement is terminated by HM Treasury pursuant to the provisions of this clause 12, no party to this Agreement will have any claim against any other party to this Agreement for fees, costs, damages, compensation or otherwise except that:

(A) such termination shall be without prejudice to any accrued rights or obligations under this Agreement;

(B) the Company shall pay the costs and expenses as are payable in such circumstance under and in accordance with clause 7.1;

(C) for as long as HM Treasury holds any Ordinary Shares, the provisions of clauses 8.2, 8.3, 8.4 and 8.14 shall remain in full force and effect; and

(D) the provisions of this clause 12.2 and of clauses 1, 7, 8.8, 9, 10, 11, 13, 14 and 15 shall remain in full force and effect.

13. EXCLUSIONS OF LIABILITY

No claim shall be made by the Company or any of its subsidiary undertakings, affiliates, associates, directors, officers or employees in any jurisdiction against any Indemnified Person to recover any Loss or Claim suffered or incurred by any person and which arises out of the carrying out by any Indemnified Person of obligations in connection with this Agreement, the Acquisition or the Contingent Capital Commitment except (otherwise than in connection with the matters referred to in clauses 10.1(A), 10.1(B), 10.1(C) and 10.1(D) or any consequent application of clause 11 in relation thereto or otherwise than as a result of a payment made or an obligation or liability to make payment arising under clauses 10 or 11 in respect of such matters) to the extent only that the Loss or Claim is determined in a final judgement by a court of competent jurisdiction to have resulted from the fraud, bad faith or wilful default of such Indemnified Person.

14. MISCELLANEOUS

14.1 Release of liability

Any liability to any party under this Agreement may in whole or in part be released, compounded or compromised and time or indulgence may be given by any party in its absolute discretion as regards any other person under such liability without in any way prejudicing or affecting the first party's rights against such other person under the same or a similar liability, whether joint and several or otherwise.

14.2 No waiver

No failure of any party to exercise, and no delay by it in exercising, any right, power or remedy in connection with this Agreement will operate as a waiver thereof, nor will any single or partial exercise of any such right preclude any other or further exercise of such right or the exercise of any other right. The rights provided in this Agreement are cumulative and not exclusive of any other rights (whether provided by law or otherwise). Any express waiver of any breach of this Agreement shall not be deemed a waiver of any subsequent breach.

14.3 Warranties and indemnity

Each of the parties hereto acknowledges that the Warranties given by the Company and the indemnity contained in clause 10 are, subject as provided in clause 14.9, given to HM Treasury and the Indemnified Persons (as the case may be) for themselves and not to them as agent of, trustee for or otherwise for the benefit of any other person.

14.4 Time of essence

Time shall be of the essence of this Agreement, both as regards any dates, times or periods mentioned and as regards any dates, times or periods which may be substituted for them in accordance with this Agreement or by agreement in writing between the parties.

14.5 Counterparts

This Agreement may be entered into in any number of counterparts and by the parties to it on separate counterparts, each of which when so executed and delivered shall be an original, but all the counterparts shall together constitute one and the same instrument.

14.6 Entire agreement

This Agreement, the Tax Assets Agreement and the Cashbox Documents constitute the whole agreement and understanding between the parties in relation to the Acquisition and the Contingent Capital Commitment. All previous agreements, understandings, undertakings, representations, warranties and arrangements of any nature whatsoever between the parties or any of them with any bearing on the Acquisition and the Contingent Capital Commitment are superseded and extinguished (and all rights and liabilities arising by reason of them, whether accrued or not at the date of this Agreement, are cancelled) to the extent they have such a bearing.

14.7 No variation

No variation of this Agreement shall be effective unless in writing and signed by or on behalf of each of the parties.

14.8 Illegality

If any provision in this Agreement shall be held to be illegal, invalid or unenforceable, in whole or in part, under any enactment or rule of law, such provision or part shall to that extent be deemed not to form part of this Agreement but the legality, validity and enforceability of the remainder of this Agreement shall not be affected.

14.9 Contracts (Rights of Third Parties) Act 1999

(A) The Contracts (Rights of Third Parties) Act 1999 shall apply to this Agreement only to the extent provided in this clause 14.9.

(B) RBS shall have the right under the Contracts (Rights of Third Parties) Act 1999 to enforce the provisions of clause 5.6 against the Company and against HM Treasury.

(C) Each Indemnified Person shall have the right under the Contracts (Rights of Third Parties) Act 1999 to enforce its rights against the Company under clause 10, clause 11, this clause 14.9 or clause 15.2(B), provided that HM Treasury will have the sole conduct of any action to enforce such rights on behalf of the Indemnified Persons.

(D) Except as provided above, a person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement. HM Treasury and the Company may agree to terminate this Agreement or vary any of its terms without the consent of any Indemnified Person, RBS or any other third party. HM Treasury will have no responsibility to any Indemnified Person under or as a result of this Agreement.

14.10 Assignment or novation

(A) Subject to clause 14.10(B), HM Treasury shall be permitted to novate its rights and obligations under this Agreement (including any obligation to acquire B Shares), to any entity which is wholly owned, directly or indirectly, by HM Treasury (a "**Wholly Owned Entity**") and the Company agrees to consent to, and to execute and deliver all such documentation as may be necessary to effect, any such novation provided that such novation is effected on substantially the same terms as are contained in the *pro forma* novation agreement set out in Schedule 5 to this Agreement.

(B) In the event that HM Treasury novates its rights and obligations under this Agreement pursuant to clause 14.10(A), HM Treasury shall procure that, immediately prior to any such Wholly Owned Entity ceasing to be wholly-owned directly or indirectly by HM Treasury, such rights and obligations under this Agreement shall be novated to HM Treasury or any other Wholly Owned Entity.

(C) If HM Treasury novates its rights and obligations under this Agreement pursuant to clause 14.10(A), the Company shall not incur any greater liability under clause 7.3 than would have been the case but for such novation.

(D) Subject to clause 14.10(A), neither party to this Agreement shall be permitted to assign, novate or declare itself trustee of, or purport to assign, novate or declare itself trustee of, all or any part of the benefit of, or its rights or benefits under, this Agreement to any other person without the prior written consent of the other party.

14.11 Notices

(A) Any notice, claim, demand or other communication in connection with this Agreement shall be in writing and shall be sufficiently given or served if delivered or sent:

(i) in the case of the Company to:

(a) RBS Gogarburn
Edinburgh
EH12 1HQ

Attention: Group General Counsel

Email address: Miller.Mclean@rbs.com
With a copy email to FM-001960@rbos.co.uk

and

(b) RBS Gogarburn
Edinburgh
EH12 1HQ

Attention: Deputy General Counsel and Director, Group Legal

Email address: Chris.Campbell@rbs.com
With a copy email to FM-001960@rbos.co.uk

(ii) in the case of HM Treasury to:

1 Horse Guards Road
London SW1A 2HQ

Attention: Stephen Evans, Financial Stability – RBS Team Leader

Email address: RBS.Notifications@hmtreasury.gsi.gov.uk

(B) A copy of each notice delivered by email shall be sent by hand to the recipient in accordance with clause 14.11(A), but failure to send such a copy shall not render any notice ineffective.

(C) Any such notice or other communication shall be delivered by hand or by email. In the absence of evidence of earlier receipt, a notice or other communication is deemed given:

(i) If sent by email, when sent (provided that an email shall be deemed not to have to been sent if the sender receives a delivery failure notification); or

(ii) if delivered by hand, at the time of actual delivery.

(D) Any notice given outside Working Hours in the place to which it is addressed shall be deemed not to have been given until the start of the next period of Working Hours in such place.

(E) Any party may change its notice details for the purposes of clause 14.11(A) by notifying the other of such change, provided that such notification shall only be effective on:

(i) the date specified in the notification as the date on which the change is to take place, being not less than five Business Days after the date of such notice; or

(ii) if no date is specified or the date specified is less than five Business Days after the date on which notice is given, the date falling five Business Days after notice of any such change has been given.

14.12 Securities Act

Each party hereto acknowledges and agrees that the B Shares (and any Ordinary Shares into which they are convertible) and the Dividend Access Share have not been and will not be registered under the United States Securities Act of 1933 (the "**Securities Act**") or under any securities laws of any state or other jurisdiction of the

United States and may not be offered, sold, resold, transferred or delivered, directly or indirectly, within the United States except pursuant to an applicable exemption from the registration requirements of the Securities Act or in a transaction that is registered in accordance with the Securities Act.

15. GOVERNING LAW AND SUBMISSION TO JURISDICTION

15.1 Governing law

This Agreement and any non-contractual obligations arising out of or in connection with it shall be governed by and construed in accordance with English law.

15.2 Jurisdiction

(A) Subject to clauses 15.2(B) and 15.2(C), the courts of England have exclusive jurisdiction to hear and decide any suit, action or proceedings, and to settle any disputes (including claims for set-off and counterclaims), which may arise out of or in connection with this Agreement (respectively, "**Proceedings**" and "**Disputes**") and, for these purposes, the Company irrevocably submits to the jurisdiction of the courts of England.

(B) Notwithstanding the provisions of clause 15.2(A), in the event that any Indemnified Person becomes subject to proceedings brought by a third party (the "**Foreign Proceedings**") in the courts of any country other than England (including, without prejudice to the generality of the foregoing, in any court of competent jurisdiction in the United States) (the "**Foreign Jurisdiction**"), such Indemnified Person shall be entitled, without objection by the Company, to take such steps as are available in the Foreign Jurisdiction, in the circumstances of the Foreign Proceedings, including (if reasonably necessary) the issuing of separate proceedings, to ensure that any issues between any such Indemnified Person and the Company are determined in the Foreign Jurisdiction as part of, or as closely connected (as the procedure of the Foreign Jurisdiction will permit) with, the Foreign Proceedings and the Company hereby submits to the jurisdiction of the Foreign Jurisdiction for this purpose.

(C) The Company irrevocably waives any objection to the jurisdiction of any courts referred to in this clause 15.

(D) The Company irrevocably agrees that a judgment and/or order of any court referred to in this clause 15 based on any matter arising out of or in connection with this Agreement (including but not limited to the enforcement of any indemnity) shall be conclusive and binding on it and may be enforced against it in any other jurisdiction, whether or not (subject to due process having been served on it) it participates in the relevant proceedings.

15.3 Agent for service of process

(A) The Company agrees to appoint an agent for service of process in any Foreign Jurisdiction other than England in which any other party is subject to legal suit, action or proceedings based on or arising under this Agreement within 14 days

of receiving written notice of such legal suit, action or proceedings and the request to appoint such agent for service. In the event that the Company does not appoint such an agent within 14 days of the notice requesting it to so, such other party may appoint a commercial agent for service for the Company on the Company's behalf and at the Company's expense and the Company agrees that subject to being notified of such appointment in writing, service upon such commercial agent will constitute service upon the Company.

(B) Process by which any Proceedings are begun in England may be served on a party by being delivered in accordance with clause 14. Nothing contained in this clause 15.3(B) affects the right to serve process in another manner permitted by law.

SCHEDULE 1

CERTIFICATES TO BE DELIVERED

Part I

Certificate to be delivered pursuant to clause 2.1(I) and Part I of Schedule 2 prior to and with effect immediately before the Acquisition

[Company Letterhead]

To: The Commissioners of Her Majesty's Treasury
1 Horse Guards Road
London SW1A 2HQ

Attention of: [•]

[*date*]

Dear Sirs

Acquisition of 51,000,000,000 Series 1 Class B Shares of 1 penny each and the Series 1 Dividend Access Share of 1 penny (the "Acquisition")

Further to the acquisition and contingent capital agreement between us dated [•] 2009 (the "**Agreement**"), we confirm that:

(a) after due and careful enquiry it has not come to the notice of any Director that there is any fact or circumstance which constitutes a breach of any of the Warranties given under the Agreement on the date of the Agreement or which has caused or would or might cause any of the Warranties given pursuant to the Agreement to become untrue, inaccurate or misleading, in each case by reference to the facts or circumstances existing on the date of this letter;

(b) it has not come to the notice of any Director that the Company is in breach of any of its obligations under the Agreement;

(c) the Resolutions have been passed without amendment at the GM; and

(d) insofar as the Directors are aware (subject only to the giving of this letter and excluding any conditions set out in clause 2.1 of the Agreement the satisfaction of which has been waived by HM Treasury pursuant to clause 2.2(B) of the Agreement or which is treated as waived pursuant to clause 2.2(C) or clause 2.2(E) of the Agreement), the conditions set out in clause 2.1 of the Agreement have all been fulfilled.

For the purpose of this letter, where in a representation, warranty or undertaking there is an express or implied reference to the "date of this Agreement", that reference is to be construed as a reference to "immediately prior to Acquisition".

Words and expressions defined in the Agreement have the same meaning where used in this letter.

Yours faithfully

Director

for and on behalf of
The Royal Bank of Scotland Group plc

Part II

Certificate to be delivered pursuant to clause 5.3(l) and Part 2 of Schedule 2 prior to and with effect immediately before each issue of Contingent Capital Shares

To: The Commissioners of Her Majesty's Treasury
1 Horse Guards Road
London SW1A 2HQ

Attention of: [•]

[*date*]

Dear Sirs

Subscription for [•] Class B shares of 1 penny each (the "Contingent Capital Subscription")

Further to the acquisition and contingent capital agreement between us dated [•] 2009 (the "**Agreement**"), we confirm that:

(a) after due and careful enquiry it has not come to the notice of any Director that there is any fact, matter or circumstance which constitutes a breach of any of the Warranties given under the Agreement on each Contingent Capital Warranty Date relating to the Contingent Capital Subscription or which has caused or would or might cause any such Warranties to become untrue, inaccurate or misleading by reference to the facts or circumstances existing on the date of this letter in each case save as has already been fairly disclosed to HM Treasury in terms of the Agreement, such disclosure having been identified as being made for the purposes of the Agreement;

(b) the Resolutions have not been revoked or amended such that the Contingent Capital Shares cannot be allotted and issued pursuant to the Contingent Capital Subscription;

(c) a Trigger Event has occurred and continues to exist; and

(d) no Termination Event has occurred.

Words and expressions defined in the Agreement but not in this letter have the same meaning where used in this letter.

Yours faithfully

Director
for and on behalf of
The Royal Bank of Scotland Group plc

SCHEDULE 2
DOCUMENTS TO BE DELIVERED

Part I

Documents to be delivered on the Acquisition Date

The following documents are to be delivered by the Company to HM Treasury on the Acquisition Date as referred to in clause 2.1(l):

1. a written English opinion in a form acceptable to HM Treasury, acting reasonably, from Linklaters LLP (as English counsel for the Company):

2. a certified copy of the Memorandum and Articles of Association of the Company;

3. a written Scottish opinion in a form acceptable to HM Treasury, acting reasonably, from Dundas & Wilson CS LLP (as Scottish counsel for the Company);

4. a certified copy of the Resolutions;

5. a certified copy of the resolutions of the Board (or of the duly authorised committee of the Board) referred to at clause 3.3 (and, if the said resolution is of such a committee, a certified copy of the resolution of the Board appointing such committee (if not previously delivered to the HM Treasury));

6. a letter addressed to HM Treasury in the form set out in Part I of Schedule 1 dated as of the Acquisition Date;

7. an original copy of the Tax Assets Agreement duly executed by the Company, RBS and ABN AMRO;

8. an original copy of the State Aid Commitment Deed, duly executed by the Company;

9. an original copy of each of the Cashbox Documents duly executed by the Company and by CashboxCo;

10. a certified copy of the resolution of the board of directors of CashboxCo approving and authorising the execution of the Cashbox Documents;

11. a letter from the Auditors addressed to the Company in a form acceptable to HM Treasury, acting reasonably, confirming (i) the effect on the distributable reserves of the Company of implementing the Acquisition and (ii) the accounting treatment of the Annual Premium, such letter to state expressly that a copy of such letter may be provided to HM Treasury on a non-recourse basis; and

12. such other documents as may be reasonably required by HM Treasury.

PART II

Documents to be delivered on each Contingent Capital Completion Date

The following documents are to be delivered by the Company to HM Treasury on each date on which Contingent Capital Shares are to be issued as referred to in clause 5.3(M).

1. a certified copy of the Memorandum and Articles of Association of the Company;

2. a written Scottish opinion in a form acceptable to HM Treasury, acting reasonably, from Dundas & Wilson CS LLP (as Scottish counsel for the Company);

3. a certified copy of the resolution of the Board (or of the duly authorised committee of the Board) allotting the relevant Contingent Capital Shares (and, if the said resolution is of such a committee, a certified copy of the resolution of the Board appointing such committee (if not previously delivered to the HM Treasury));

4. a letter addressed to HM Treasury in the form set out in Part II of Schedule 1 dated as of the relevant Contingent Capital Completion Date; and

5. such other documents as may be reasonably required by HM Treasury including, as appropriate, documents relating to any cashbox arrangements by which the issue of Contingent Capital Shares pursuant to the relevant Contingent Capital Subscription may be structured (on a basis consistent with the documents referred to in Part 1 of this Schedule 2).

SCHEDULE 3
WARRANTIES IN RELATION TO THE ACQUISITION

PART I

Representations, warranties and undertakings given on the date of this Agreement, on the Posting Date and on each Acquisition Warranty Date

1. Compliance

1.1 Each Group Company and CashboxCo has been duly incorporated and is validly existing as a company with limited or unlimited liability under the laws of the country of its incorporation with full corporate power and authority to own, lease and operate the properties which it owns, leases and operates and to own its other assets and carry on its business as presently carried on and as intended to be carried on as described in the latest report and accounts published by the Group.

1.2 This Agreement and the other agreements to be entered into by the Company in connection with the Acquisition and the Contingent Capital Commitment and the allotment and issue of the Acquisition Shares and the Contingent Capital Shares have been or will be duly authorised, executed and delivered on behalf of the Company and assuming due authorisation, execution and delivery by the other parties thereto, do or will constitute valid and binding obligations of the Company enforceable against it in accordance with their terms (subject to mandatory rules of law relating to insolvency).

1.3 Other than pursuant to (i) this Agreement, (ii) options or other rights granted under the Group's share schemes or deferred bonus scheme, (iii) the terms of the Convertible Preference Shares and (iv) any Alternative Coupon Settlement Mechanism, and save as otherwise would not (singly or in the aggregate) be material in the context of the Acquisition or the Contingent Capital Commitment, there are no rights (conditional or otherwise) (i) to require the issue of any shares or other securities (including without limitation, any loan capital) or securities convertible into or exchangeable for, or warrants, rights or options to purchase, or obligations, commitments or intentions to create the same or (ii) to sell or otherwise dispose of any shares or other securities of a Group Company (other than to another Group Company, as the case may be) which are outstanding and in force.

1.4 All sums due in respect of the issued share capital of the Company at the date of this Agreement have been paid to and received by the Company. No owner or holder of any of the share capital of the Company has any right, in his capacity as such, in relation to the Group other than as set out in the memorandum and articles of association of the Company.

1.5 The Company is the beneficial owner free from all Adverse Interests of the shares it holds in each Material Subsidiary.

1.6 The Company and the Directors have at all times complied with the provisions of the Company's memorandum and articles of association and the Companies Acts and, subject to the passing of the Resolutions, have or will have the right, power and authority under the memorandum and articles of association of the Company and the

Companies Acts, to enter into and perform this Agreement (including, without limitation, the power to pay the fees, costs and expenses provided for in this Agreement), to allot and issue the Acquisition Shares and the Contingent Capital Shares in certificated form, to issue the Relevant Documents in the manner proposed without any sanction or consent by members of the Company or any class of them and, there are no other consents, authorisations or approvals required by the Company in connection with the entering into and the performance of this Agreement or any of the Cashbox Documents and the actions referred to in this paragraph 1.6 which have not been irrevocably and unconditionally obtained.

1.7 The allotment and issue of the Acquisition Shares, the Acquisition and the issue and distribution of the Relevant Documents and any other document by or on behalf of the Company in connection with the Acquisition or the allotment and issue of the Acquisition Shares and the performance of this Agreement will comply in all material respects with all agreements to which any Group Company is a party or by which any such Group Company is bound and will comply with: (a) all applicable laws and regulations of the United Kingdom (including, without limitation, the Companies Acts, FSMA, the FSA Rules, the Listing Rules, the Prospectus Rules, the DTRs and the Admission and Disclosure Standards) and (in all material respects) with, all applicable laws and regulations of any relevant jurisdiction; and (b) the memorandum and articles of association of the Company; and will not exceed or infringe any restrictions or the terms of any contract, indenture, security, obligation, commitment or arrangement by or binding upon the board of directors of any Group Company or their respective properties, revenues or assets or result in the implementation of any right of pre emption or any other material provision thereof, or result in the imposition or variation of any material rights or obligations of any Group Company.

1.8 The Acquisition Shares and the Contingent Capital Shares will, upon allotment, be free from all Adverse Interests, the Acquisition B Shares will have the rights and be subject to the restrictions as set out in Schedule 6 of this Agreement, the Dividend Access Share will have the rights and be subject to the restrictions as set out in Schedule 7 of this Agreement and the Contingent Capital Shares will, if issued pursuant to the Contingent Capital Subscription, be issued on the B Share Terms.

1.9 No member of the Group or any person acting on its behalf has taken, directly or indirectly, any action designed to or which has constituted or which might reasonably be expected to cause or result in the manipulation of the price of any security of the Company.

1.10 Subject to the passing of the Resolutions, the Company will have authority to effect the conversion of the B Shares as provided in the B Share Terms, including by way of sub-dividing Ordinary Shares into ordinary shares and Non-Voting Deferred Shares.

2. Announcements

With respect to all Previous Announcements, all statements of fact contained therein were at the date of the relevant Previous Announcement and, save to the extent corrected, amended or supplemented in any document or announcement issued or made by or on behalf of the Company or any member of the Group subsequent thereto and prior to the date of this Agreement (in the case of Warranties given on the date of

this Agreement) or prior to the relevant Acquisition Warranty Date (in respect of Warranties given on such date), remain true and accurate in all material respects and not misleading in any material respect and all estimates, expressions of opinion or intention or expectation of the Directors contained therein were made on reasonable grounds and were honestly held by the Directors and were fairly based and there were no facts known (or which could on reasonable enquiry have been known by the Directors) the omission of which would make any statement of fact or estimate or statement or expression of opinion, intention or expectation in any of the Previous Announcements misleading and all Previous Announcements complied with the memorandum and articles of association of the Company, the Listing Rules, the DTRs, the Prospectus Rules, the Companies Acts, FSMA, all applicable rules and requirements of the LSE, the FSA and Euronext, the NFSA and all applicable US and Dutch laws and regulations and (in all material respects) all other applicable requirements of statute, statutory regulation or any regulatory body. There is no existing profit forecast outstanding in respect of the Company, the Group taken as a whole, or any member thereof.

3. Accounts

3.1 The Accounts:

(A) have been prepared in accordance, and comply, with IFRS, the Companies Acts and all applicable laws and regulations and have been audited in accordance with International Standards on Auditing (UK and Ireland);

(B) give a true and fair view of the financial condition and of the state of affairs of the Company and the Group as at the end of the relevant financial periods and of the profit, loss, cash flow and changes in equity of the Company and the Group for the year then ended; and

(C) either made proper provision for, or, where appropriate, in accordance with IFRS, include a note in respect of all liabilities or commitments, whether actual, deferred, contingent or disputed, of the Group.

3.2 The Interim Accounts (if any):

(A) have been prepared in accordance with, and comply with, IFRS and all applicable laws and regulations;

(B) give a true and fair view of the financial position of the Group as at the date to which they were prepared and the profit or loss of the Group for the financial period ended on such date; and

(C) either made proper provision for, or, where appropriate, in accordance with IFRS, include a note in respect of all liabilities or commitments, whether actual, deferred, contingent or disputed, of the Group.

3.3 The ABN AMRO Accounts:

(A) have been prepared and audited in accordance and comply with IFRS, applicable Dutch law and all applicable laws and regulations;

(B) give a true and fair view of the financial condition and of the state of affairs of ABN AMRO and its subsidiary undertakings as at the end of each of the relevant financial periods and of the profit, loss, cash flow and changes in equity of ABN AMRO and its subsidiary undertakings for such periods; and

(C) either made proper provision for, or, where appropriate, in accordance with IFRS, include a note in respect of all liabilities or commitments, whether actual, deferred, contingent or disputed of ABN AMRO and its subsidiary undertakings.

3.4 The Directors have established procedures which provide a reasonable basis for them to make proper judgements on an ongoing basis as to the financial position and prospects of the Company and each Group Company.

3.5 There are no, and during the past five years have been no: (i) material weaknesses in the Company's internal controls over financial reporting (whether or not remediated) of the Company or the Group; (ii) changes in the Company's internal controls over financial reporting of the Company or the Group that have materially adversely affected, or would be reasonably likely to materially adversely affect, the Company's internal controls over financial reporting of the Company or the Group; or (iii) fraud that involves any current member of management of the Company or (so far as the Company is aware) of any member of the Group and no material fraud that involves any employee of the Company or (so far as the Company is aware) of any member of the Group.

4. Guarantees, indemnities, borrowings and default

4.1 Save for:

(A) guarantees or indemnities given by any Group Company in the ordinary course of business; and

(B) any indemnities given by the Company to HM Treasury,

no Group Company has given or has agreed to give any guarantee or indemnity or similar obligation in favour of a third party (other than in favour of another Group Company) and no Group Company has any current or known future liability, howsoever arising which, in any of the foregoing cases, would, or would be reasonably likely to, be (singly or in the aggregate) material in the context of the Acquisition or the Contingent Capital Commitment.

4.2 No event has occurred nor have any circumstances arisen (and the Acquisition, the Contingent Capital Commitment and the allotment and issue of B Shares and Dividend Access Share will not give rise to any such event or circumstance) so that any person is or would be entitled, or could, with the giving of notice or lapse of time or the fulfilment of any condition or the making of any determination, become entitled, to require repayment before its stated maturity of, or to take any step to enforce any security for, any indebtedness of any member of the Group and no person to whom any indebtedness of any member of the Group which is payable on demand is owed has

demanded or threatened to demand repayment of, or taken or threatened to take any step to enforce any guarantee, indemnity or other security for, the same, which, in any of the foregoing cases, would, or would be reasonably likely to, be (singly or in the aggregate) material or have material consequences in each case in the context of the Acquisition or the Contingent Capital Commitment or the business of the Group.

4.3 There are no companies, undertakings, partnerships or joint ventures in existence in which any Group Company has an ownership interest but whose results are not consolidated with the results of the Group, but whose default would affect the indebtedness or increase the contingent liabilities of the Group to an extent which would, or would be reasonably likely to, be (singly or in the aggregate) material in the context of the Acquisition or the Contingent Capital Commitment.

5. Taxation

No stamp duty, SDRT or other issuance or transfer taxes or similar duties are payable in connection with the allotment, issue and delivery of the Acquisition Shares or the Contingent Capital Shares by the Company in accordance with the terms of this Agreement, save for (i) any stamp duty or SDRT payable under sections 67, 70, 93 or 96 of the Finance Act 1986 and (ii) for the avoidance of doubt, any stamp duty, SDRT or other issuance or transfer taxes or similar duties payable in connection with the delivery or transfer of the Cashbox Ordinary Shares or the Cashbox Preference Shares or any shares in any cashbox or similar company involved in any cashbox or similar structure used to implement the acquisition of any Contingent Capital Shares.

6. Insolvency

6.1 No Group Company is unable to pay its debts within the meaning of section 123 of the Insolvency Act 1986 or is otherwise insolvent.

6.2 Save in the context of a solvent voluntary winding up or otherwise as would not (singly or in the aggregate) be material in the context of the Acquisition or the Contingent Capital Commitment, no order has been made, petition presented or resolutions passed for the winding up of any Group Company and no meeting has been convened for the purpose of winding up any Group Company. No Group Company has been a party to any transaction which could be avoided in a winding up.

6.3 No steps have been taken for the appointment of an administrator or receiver (including an administrative receiver) of all or any part of the assets of any Group Company.

6.4 By reason of actual or anticipated financial difficulties, no Group Company has commenced negotiations with its creditors or any class of its creditors with a view to rescheduling any of its indebtedness or has made or proposed any arrangement or composition with its creditors or any class of its creditors save, in any of the foregoing cases, to an extent which would not (singly or in the aggregate) be material in the context of the Acquisition or the Contingent Capital Commitment.

7. Regulatory

None of the Company, any other member of the Group or, to the knowledge of the Company, any director, officer, agent, employee or Affiliate of the Company is currently subject to any sanctions administered by the U.S. Department of the Treasury ("**OFAC**") or any similar sanctions imposed by the European Union, the United Nations or any other body, governmental or other, to which the Company or any of its Affiliates is subject (collectively, "other economic sanctions"); and the Company will not directly or indirectly use the proceeds of the Acquisition or any Contingent Capital Subscription, or lend, contribute or otherwise make available such proceeds to any other member of the Group, joint venture partner or other person or entity, for the purpose of financing the activities of any person currently subject to any sanctions administered by OFAC or any other economic sanctions.

PART II

Representations, warranties and undertakings given on the Posting Date and on each Acquisition Warranty Date

All Warranties in paragraphs 1 and 3 to 7 of this Part II of Schedule 3 are qualified by reference to matters which are fairly disclosed in the Circular and the Form of Proxy or, if given on or after the posting of any Replacement Circular, by reference to matters which are fairly disclosed in the Replacement Circular.

1. Regulatory and compliance

1.1 No Group Company nor any of its officers has failed to comply with any statutory provision or any rules, regulations, directions, requirements, notices and provisions of the FSA or any other regulatory body applying to such Group Company in relation to its business including (without limitation) in respect of the maintenance of its Capital Resources Requirement and satisfaction of the Overall Financial Adequacy Rule and any equivalent capital requirements in any other jurisdiction that are applicable to any Group Company; no obligation has arisen in respect of the general notification requirements under Chapter 15.3 of SUP, save in any of the foregoing cases to an extent which would not (singly or in the aggregate) be material in the context of the Acquisition or the Contingent Capital Commitment.

1.2 Save as disclosed in any Previous Announcements, the Accounts or the Interim Accounts or as otherwise would not (singly or in the aggregate) be material in the context of the Acquisition or the Contingent Capital Commitment, no Group Company is the subject of any investigation, enforcement action (including, without limitation to vary the terms of any permission of licence) or disciplinary proceeding by the FSA or any other regulatory body having jurisdiction over such Group Company, and no such investigation, enforcement action or disciplinary proceeding is threatened or pending.

1.3 Save as disclosed in any Previous Announcements, the Accounts or the Interim Accounts or as otherwise as would not (singly or in the aggregate) be material in the context of the Acquisition or the Contingent Capital Commitment, the Company is not subject to any special or additional surveillance or supervision by the FSA or to any special or additional reporting requirements in relation to its assets, liquidity position, funding position or otherwise and the Company has not been subject to any visits, beyond customary visits, by the FSA.

1.4 The operations of each Group Company are and have been conducted at all times in material compliance with the money laundering statutes of all jurisdictions, the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or enforced by any governmental agency (collectively, the "Money Laundering Laws") and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving any Group Company with respect to Money Laundering Laws is pending or, to the best knowledge of the Company, threatened.

1.5 All licences, permissions, authorisations and consents which are material for carrying on the business of the Group have been obtained and are in full force and effect and, so far

as the Company is aware, there are no circumstances which might lead to any of such licences, permissions, authorisations and consents being revoked, suspended, varied or refused renewal to an extent which would, or would be reasonably likely to, be (singly or in the aggregate) material in the context of the Acquisition or the Contingent Capital Commitment (as the case may be).

1.6 Each Group Company required to be licensed (as a bank or otherwise) is duly licensed in its jurisdiction of incorporation and domicile and, except as would not reasonably be expected to be material in the context of the Acquisition or the Contingent Capital Commitment, is duly licensed or authorised in each other jurisdiction where it is required to be licensed or authorised to conduct its business.

1.7 None of the Company, any other member of the Group or, to the knowledge of the Company, any director, officer, agent, employee or Affiliate of the Company, is aware of or has taken any action, directly or indirectly, that could result in a violation by such persons of the U.S. Foreign Corrupt Practices Act of 1977, as amended, or the rules and regulations thereunder (the FCPA) (including, without limitation, making use of the mail or any means or instrument of interstate commerce corruptly in furtherance of an offer, payment, promise to pay or authorisation of the payment of any money, or other property, gift, promise to give, or authorisation of the giving of anything of value to any "foreign official" (as such term is defined in the FCPA) or any foreign political office, in contravention of the FCPA), the OECD Convention on Bribery of Foreign Public Officials in International Business Transactions (the OECD Convention) or any similar law or regulation, to which the Company, any other member of the Group, any director, officer, agent, employee of any member of the Group or, to the knowledge of the Company, any Affiliate is subject; and the Company, each member of the Group and, to the knowledge of the Company, its Affiliates have conducted their businesses in compliance with the FCPA, the OECD Convention and any applicable similar law or regulation.

1.8 No event or circumstance exists, has occurred or arisen or, so far as the Company is aware, is about to occur which constitutes or results in, or would with the giving of notice and/or lapse of time and/or the making of a relevant determination, constitute, or result in, termination of or a default or the acceleration or breach of any obligation under any agreement, instrument or arrangement to which any Group Company is a party or by which any such Group Company or any of its properties, revenues or assets are bound, in any of the foregoing cases to an extent which would, or would be reasonably likely to, be (singly or in the aggregate) material in the context of the Acquisition or the Contingent Capital Commitment.

2. Disclosure

The Company has complied, and is continuing to comply, in all respects with Principle 4 set out in Listing Rule 7.2.1R and with DTR 2.2.1 and the Circular complies in all respects with Listing Rules 13.3.1R(1), 13.3.1R(3) and 13.6.1R(3).

3. The Relevant Documents

3.1 The Relevant Documents contain all particulars and information required by, and comply in all respects with the memorandum and articles of association of the Company, the Companies Acts, FSMA, the FSA Rules, the Listing Rules (including, without limitation,

Chapters 10, 11 and 13 of the Listing Rules (as applicable)), the DTRs, the NFSA, all applicable rules and requirements of the LSE and the FSA and all other applicable requirements of statute, statutory regulation or any regulatory body.

3.2 All expressions of opinion, intention or expectation contained in any Relevant Document are, and were on the respective dates of such Relevant Document, honestly held by the Directors and are fairly based and have been made on reasonable grounds after due and careful consideration and enquiry.

3.3 There are no facts or matters known, or which could on reasonable enquiry have been known, to the Company or any of the Directors omitted from any Relevant Document, the omission of which would make any statement of fact or expression of opinion, intention or expectation contained in a Relevant Document misleading.

4. Position since Accounts Date

Since the Accounts Date and save as disclosed in any Previous Announcements, the Interim Accounts or any other written agreement which is entered into between the Company and HM Treasury on or before the date of this Agreement and which is stated specifically to be a disclosure against any of the following Warranties:

(A) each Group Company has carried on its respective business in the ordinary course in all material respects, and there has been no Material Adverse Effect;

(B) save as fairly disclosed to HM Treasury, there has been no material impairment to charges in respect of any assets of the Company or of any Group Company, and there has been no increase in the provisions in respect of losses in relation to any mortgage, loans or other assets of the Company or of any Group Company that, in any of the foregoing cases, would, or would be reasonably likely to, be (singly or in the aggregate) material in the context of the Acquisition or the Contingent Capital Commitment;

(C) save for this Agreement and the Accession Documents, any agreements entered into in connection with the Placing and Open Offer and any utilisation by the Company of the liquidity measures being made available by the Bank of England (in the form notified by HM Government to the European Commission on 12 October 2008), no Group Company has, otherwise than in the ordinary course of business, entered into or assumed or incurred any contract, commitment (whether in respect of capital expenditure or otherwise), borrowing, indebtedness in the nature of borrowing, guarantee, liability (including contingent liability) or any other agreement or obligation that, in any of the foregoing cases, would, or would be reasonably likely to, be (singly or in the aggregate) material in the context of the Acquisition or the Contingent Capital Commitment;

(D) other than in the ordinary course of business, no debtor has been released by the Company to an extent which (singly or in the aggregate) is material in the context of the Acquisition or the Contingent Capital Commitment on terms that he pays less than the book value of his debt and no debt of such material

amount owing to the Company or any Group Company has been deferred, subordinated or written off or has proven irrecoverable to any material extent;

(E) no Group Company has been involved in any transaction (other than any transaction provided for in this Agreement or the Accession Documents) which has resulted or would be reasonably likely to result (singly or in the aggregate) in any liability for Tax on the Company or any Group Company, which, in any of the foregoing cases, would, or would be reasonably likely to, be (singly or in the aggregate) material in the context of the Acquisition or the Contingent Capital Commitment other than a transaction in the ordinary course of business; and

(F) no Group Company has been in default in any material respect under any agreement or arrangement to which any Group Company is a party and which is or is reasonably likely to be material and there are no circumstances likely to give rise to such default, to an extent which (singly or in the aggregate) would, or would be reasonably likely to, be material in the context of the Acquisition or the Contingent Capital Commitment.

5. Litigation

5.1 Save as disclosed in any Previous Announcements, the Accounts or the Interim Accounts, no Group Company nor any of its officers or agents or employees is involved, or has during the recent past (being not less than 12 months ending on the date of this Agreement) been involved in any civil, criminal, arbitration, administrative, governmental or other proceedings or governmental regulatory or similar investigation or enquiry, whether as plaintiff, defendant or otherwise which, by itself or with other proceedings, would be, or is reasonably likely to be, material in the context of the Acquisition or the Contingent Capital Commitment.

5.2 Save as disclosed in any Previous Announcements, the Accounts or the Interim Accounts, no litigation or arbitration, administrative, governmental, civil, criminal or other proceedings nor governmental, regulatory or similar investigation or enquiry are pending or have been threatened by or against any Group Company or any of their respective officers, agents or employees in relation to the affairs of any Group Company and, to the best of the knowledge, information and belief of the Company and the Directors, there are no facts or circumstances likely to give rise to any such litigation or arbitration, administrative, criminal, governmental, civil, or other proceedings or governmental, regulatory or similar investigation or enquiry, in each case, to an extent which, by itself or with other proceedings, would be, or is reasonably likely to be, material in the context of the Acquisition or the Contingent Capital Commitment.

5.3 Save as disclosed in any Previous Announcements, the Accounts or the Interim Accounts, no Group Company nor any of its officers or agents or employees in relation to the affairs of any Group Company has been a party to any undertaking or assurance given to any court or governmental agency or the subject of any injunction which in any of the foregoing cases is still in force and which, by itself or with other proceedings, which would be, or is reasonably likely to be, material in the context of the Acquisition or the Contingent Capital Commitment.

5.4 For the purpose of this paragraph 5, proceedings includes any action by any governmental, public or regulatory authority (including any investment exchange or any authority or body which regulates investment business or takeovers or which is concerned with regulatory, licensing, competition, taxation matters or matters concerning Intellectual Property Rights).

6. Arrangements with directors and shareholders

6.1 Save for the articles of association of the Company, any service agreement with a Director and any contracts entered into in the ordinary course of business, there are no existing contracts or engagements or other arrangements to which any Group Company is a party and in which any of the directors of any Group Company and/or any associate of any of them is interested which would be material in the context of the Acquisition or the Contingent Capital Commitment; and to the extent that any such contracts, engagements or other arrangements exist they comply with the related party requirements of the Listing Rules of the UK Listing Authority (or other relevant regulator).

6.2 No Shareholder has any rights, in his capacity as such, in relation to any Group Company other than as set out in the articles of association of the Company.

6.3 The Company is not aware of any claim, demand or right of action against any Group Company otherwise than for accrued remuneration in accordance with their contracts of employment by any officer or employee (or former officer or employee) of the Group and/or any associate of them in any of the foregoing cases to an extent that (singly or in the aggregate) would, or would be reasonably likely to, be material in the context of the Acquisition or the Contingent Capital Commitment.

6.4 So far as the Company is aware, no Director nor any person connected with such Director nor any of the employees of the Group nor any person connected with any such employee is in breach of any restrictive covenant, employment agreement or contract for services which would, or would be reasonably likely to, affect the Company or any other Group Company and so far as the Company is aware, there are no circumstances which might give rise to any claim of such a breach or any other dispute with any employer, former employer or other person for whom any Director or employee of the Group provides or has provided services, in any of the foregoing cases to an extent that (singly or in the aggregate) would, or would be reasonably likely to, be material in the context of the Acquisition or the Contingent Capital Commitment.

6.5 For the purpose of this paragraph 6, associate has the meaning:

(A) in the case of an individual, given to “connected person” under section 96B(2) of FSMA; and

(B) in the case of a body corporate, given to “associated company” in sections 416 et seq. of the Income and Corporation Taxes Act 1988.

7. Agreements

Save as contemplated by this Agreement or in respect of the Convertible Preference Shares or any Alternative Coupon Satisfaction Mechanism or as would not (singly or in the aggregate) be material in the context of the Acquisition or the Contingent Capital Commitment, there is no agreement, undertaking, instrument or arrangement requiring the creation, allotment, issue, redemption or repayment, or the grant to any person of the right (whether conditional or not) to require the allotment, issue, redemption or repayment, of any shares in the capital of the Company or a Material Subsidiary (including, without limitation, an option or right of pre-emption or conversion).

8. Cash box

8.1 CashboxCo has not undertaken any obligations or liabilities except pursuant to, or as contemplated by, the Cashbox Documents or otherwise agreed in writing by HM Treasury.

8.2 CashboxCo is and will remain resident in the United Kingdom and nowhere else for United Kingdom tax purposes.

SCHEDULE 4

CONTINGENT CAPITAL WARRANTIES

Representations, warranties and undertakings given on each Contingent Capital Warranty Date

1. Compliance

1.1 Each Group Company and to the extent the relevant Contingent Capital Subscription is being implemented by way of a cashbox structure, the cashbox company has been duly incorporated and is validly existing as a company with limited or unlimited liability under the laws of the country of its incorporation with full corporate power and authority to own, lease and operate the properties which it owns, leases and operates and to own its other assets and carry on its business as presently carried on and as intended to be carried on as described in the latest report and accounts published by the Group.

1.2 All licences, permissions, authorisations and consents which are material for carrying on the business of the Group have been obtained and are in full force and effect and, so far as the Company is aware, there are no circumstances which might lead to any of such licences, permissions, authorisations and consents being revoked, suspended, varied or refused renewal to an extent which would, or would be reasonably likely to, be (singly or in the aggregate) material in the context of the relevant Contingent Capital Subscription (as the case may be).

1.3 All sums due in respect of the issued share capital of the Company at the Contingent Capital Notice Date have been paid to and received by the Company. No owner or holder of any of the share capital of the Company has any right, in his capacity as such, in relation to the Group other than as set out in the memorandum and articles of association of the Company.

1.4 The Company is the beneficial owner free from all Adverse Interests of the shares it holds in each Material Subsidiary.

1.5 The Company and the Directors have at all times complied with the provisions of the Company's memorandum and articles of association and the Companies Acts and have or will have the right, power and authority under the memorandum and articles of association of the Company to allot and issue the relevant Contingent Capital Shares in certificated form, and there are no other consents, authorisations or approvals required by the Company in connection with any of the documents relating to any Contingent Capital Subscription implementation by way of a cashbox structure and the actions referred to in this paragraph 1.5 which have not been irrevocably and unconditionally obtained.

1.6 The allotment and issue of the relevant Contingent Capital Shares, the relevant Contingent Capital Subscription and the issue and distribution of any document by or on behalf of the Company in connection with the relevant Contingent Capital Subscription or the allotment and issue of the relevant Contingent Capital Shares will comply in all material respects with all agreements to which any Group Company is a party or by which any such Group Company is bound and will comply with: (a) all applicable laws and regulations of the United Kingdom (including, without limitation, the Companies

Acts, FSMA, the FSA Rules, the Listing Rules, the Prospectus Rules, the DTRs and the Admission and Disclosure Standards) and (in all material respects) with, all applicable laws and regulations of any relevant jurisdiction; and (b) the memorandum and articles of association of the Company; and will not exceed or infringe any restrictions or the terms of any contract, indenture, security, obligation, commitment or arrangement by or binding upon the board of directors of any Group Company or their respective properties, revenues or assets or result in the implementation of any right of pre emption or any other material provision thereof, or result in the imposition or variation of any material rights or obligations of any Group Company.

1.7 The relevant Contingent Capital Shares will, upon allotment, be free from all Adverse Interests and will be issued on the B Share Terms.

1.8 No member of the Group or any person acting on its behalf has taken, directly or indirectly, any action designed to or which has constituted or which might reasonably be expected to cause or result in the manipulation of the price of any security of the Company.

1.9 The agreements (if any) to be entered into by the Company in connection with the relevant Contingent Capital Subscription and the allotment and issue of the relevant Contingent Capital Shares have been or will be, by the relevant Contingent Capital Completion Date, duly authorised, executed and delivered on behalf of the Company and assuming due authorisation, execution and delivery by the other parties thereto, do or will, by the relevant Contingent Capital Completion Date, constitute valid and binding obligations of the Company enforceable against it in accordance with their terms (subject to mandatory rules of law relating to insolvency).

1.10 Other than pursuant to (i) this Agreement, (ii) options or other rights granted under the Group's share schemes or deferred bonus schemes and (iii) the terms of the Convertible Preference Shares and (iv) any Alternative Coupon Satisfaction Mechanism, and save as otherwise would not (singly or in the aggregate) be material in the context of the relevant Contingent Capital Subscription, there are no rights (conditional or otherwise) (i) to require the issue of any shares or other securities (including without limitation, any loan capital) or securities convertible into or exchangeable for, or warrants, rights or options to purchase, or obligations, commitments or intentions to create the same or (ii) to sell or otherwise dispose of any shares or other securities of a Group Company (other than to another Group Company, as the case may be) which are outstanding and in force.

1.11 The Company has power to effect the conversion of the B Shares as provided in the B Share Terms, including by way of sub-dividing Ordinary Shares into ordinary shares and Non-Voting Deferred Shares.

1.12 The amount standing to the credit of the Company's share premium account as at the date of the relevant Contingent Capital Notice is as set out in the relevant Contingent Capital Notice.

2. Announcements

With respect to all Previous Announcements, all statements of fact contained therein were at the date of the relevant Previous Announcement and, save to the extent corrected, amended or supplemented in any document or announcement issued or made by or on behalf of the Company or any member of the Group subsequent thereto and prior to the relevant Contingent Capital Notice Date (in the case of Warranties given on such date) or the relevant Contingent Capital Completion Date (in the case of Warranties given on such date), remain true and accurate in all material respects and not misleading in any material respect and all estimates, expressions of opinion or intention or expectation of the Directors contained therein were made on reasonable grounds and were honestly held by the Directors and were fairly based and there were no facts known (or which could on reasonable enquiry have been known by the Directors) the omission of which would make any statement of fact or estimate or statement or expression of opinion, intention or expectation in any of the Previous Announcements misleading and all Previous Announcements complied with the memorandum and articles of association of the Company, the Listing Rules, the DTRs, the Prospectus Rules, the Companies Acts, FSMA, all applicable rules and requirements of the LSE, the FSA and Euronext, the NFSA and all applicable US and Dutch laws and regulations and (in all material respects) all other applicable requirements of statute, statutory regulation or any regulatory body. There is no existing profit forecast outstanding in respect of the Company, the Group taken as a whole, or any member thereof.

3. Accounts

3.1 The Accounts:

(A) have been prepared in accordance, and comply, with IFRS, the Companies Acts and all applicable laws and regulations and have been audited in accordance with International Standards on Auditing (UK and Ireland);

(B) give a true and fair view of the financial condition and of the state of affairs of the Company and the Group as at the end of the relevant financial periods and of the profit, loss, cash flow and changes in equity of the Company and the Group for the year then ended; and

(C) either made proper provision for, or, where appropriate, in accordance with IFRS, include a note in respect of all liabilities or commitments, whether actual, deferred, contingent or disputed, of the Group.

3.2 The Interim Accounts (if any):

(A) have been prepared in accordance with, and comply with, IFRS and all applicable laws and regulations;

(B) give a true and fair view of the financial position of the Group as at the date to which they were prepared and the profit or loss of the Group for the financial period ended on such date; and

(C) either made proper provision for, or, where appropriate, in accordance with IFRS, include a note in respect of all liabilities or commitments, whether actual, deferred, contingent or disputed, of the Group.

3.3 The Directors have established procedures which provide a reasonable basis for them to make proper judgements on an ongoing basis as to the financial position and prospects of the Company and each Group Company.

3.4 There are no, and during the past five years have been no: (i) material weaknesses in the Company's internal controls over financial reporting (whether or not remediated) of the Company or the Group; (ii) changes in the Company's internal controls over financial reporting of the Company or the Group that have materially adversely affected, or would be reasonably likely to materially adversely affect, the Company's internal controls over financial reporting of the Company or the Group; or (iii) fraud that involves any current member of management of the Company or (so far as the Company is aware) of any member of the Group and no material fraud that involves any employee of the Company or (so far as the Company is aware) of any member of the Group.

4. Guarantees, indemnities, borrowings and default

4.1 Save for:

(A) guarantees or indemnities given by any Group Company in the ordinary course of business; and

(B) any indemnities given by the Company to HM Treasury,

no Group Company has given or has agreed to give any guarantee or indemnity or similar obligation in favour of a third party (other than in favour of another Group Company) and no Group Company has any current or known future liability, howsoever arising which, in any of the foregoing cases, would, or would be reasonably likely to, be (singly or in the aggregate) material in the context of the relevant Contingent Capital Subscription.

4.2 No event has occurred nor have any circumstances arisen (and the relevant Contingent Capital Subscription and the allotment and issue of the relevant Contingent Capital Shares will not give rise to any such event or circumstance) so that any person is or would be entitled, or could, with the giving of notice or lapse of time or the fulfilment of any condition or the making of any determination, become entitled, to require repayment before its stated maturity of, or to take any step to enforce any security for, any indebtedness of any member of the Group and no person to whom any indebtedness of any member of the Group which is payable on demand is owed has demanded or threatened to demand repayment of, or taken or threatened to take any step to enforce any guarantee, indemnity or other security for, the same, which, in any of the foregoing cases, would, or would be reasonably likely to, be (singly or in the aggregate) material or have material consequences in each case in the context of the relevant Contingent Capital Subscription or the business of the Group.

4.3 There are no companies, undertakings, partnerships or joint ventures in existence in which any Group Company has an ownership interest but whose results are not

consolidated with the results of the Group, but whose default would affect the indebtedness or increase the contingent liabilities of the Group to an extent which would, or would be reasonably likely to, be (singly or in the aggregate) material in the context of the relevant Contingent Capital Subscription.

4.4 No event or circumstance exists, has occurred or arisen or, so far as the Company is aware, is about to occur which constitutes or results in, or would with the giving of notice and/or lapse of time and/or the making of a relevant determination, constitute, or result in, termination of or a default or the acceleration or breach of any obligation under any agreement, instrument or arrangement to which any Group Company is a party or by which any such Group Company or any of its properties, revenues or assets are bound, in any of the foregoing cases to an extent which would, or would be reasonably likely to, be (singly or in the aggregate) material in the context of the relevant Contingent Capital Subscription.

5. Taxation

No stamp duty, SDRT or other issuance or transfer taxes or similar duties are payable in connection with the allotment, issue and delivery of the relevant Contingent Capital Shares by the Company in accordance with the terms of this Agreement, save for (i) any stamp duty or SDRT payable under sections 67, 70, 93 or 96 of the Finance Act 1986 and (ii) for the avoidance of doubt, any stamp duty, SDRT or other issuance or transfer taxes or similar duties payable in connection with the delivery or transfer to the Company of any shares in the capital of any company similar to CashboxCo pursuant to any cashbox structure by which the allotment and issue of the relevant Contingent Capital Shares may be implemented.

6. Insolvency

6.1 No Group Company is unable to pay its debts within the meaning of section 123 of the Insolvency Act 1986 or is otherwise insolvent.

6.2 Save in the context of a solvent voluntary winding up or otherwise as would not (singly or in the aggregate) be material in the context of the relevant Contingent Capital Subscription, no order has been made, petition presented or resolutions passed for the winding up of any Group Company and no meeting has been convened for the purpose of winding up any Group Company. No Group Company has been a party to any transaction which could be avoided in a winding up.

6.3 No steps have been taken for the appointment of an administrator or receiver (including an administrative receiver) of all or any part of the assets of any Group Company.

6.4 By reason of actual or anticipated financial difficulties, no Group Company has commenced negotiations with its creditors or any class of its creditors with a view to rescheduling any of its indebtedness or has made or proposed any arrangement or composition with its creditors or any class of its creditors save, in any of the foregoing cases, to an extent which would not (singly or in the aggregate) be material in the context of the relevant Contingent Capital Subscription.

7. Regulatory

7.1 Each Group Company required to be licensed (as a bank or otherwise) is duly licensed in its jurisdiction of incorporation and domicile and, except as would not reasonably be expected to be material in the context of the relevant Contingent Capital Subscription, is duly licensed or authorised in each other jurisdiction where it is required to be licensed or authorised to conduct its business.

7.2 Save as disclosed in the Relevant Documents on or prior to the relevant Contingent Capital Notice Date (in the case of Warranties given on such date) or the relevant Contingent Capital Completion Date (in the case of Warranties given on such date), any Previous Announcements, the Accounts or the Interim Accounts or as otherwise as would not (singly or in the aggregate) be material in the context of the relevant Contingent Capital Subscription, the Company is not subject to any special or additional surveillance or supervision by the FSA or to any special or additional reporting requirements in relation to its assets, liquidity position, funding position or otherwise and the Company has not been subject to any visits, beyond customary visits, by the FSA.

7.3 No Group Company nor any of its officers has failed to comply with any statutory provision or any rules, regulations, directions, requirements, notices and provisions of the FSA or any other regulatory body applying to such Group Company in relation to its business including (without limitation) in respect of the maintenance of its Capital Resources Requirement and satisfaction of the Overall Financial Adequacy Rule and any equivalent capital requirements in any other jurisdiction that are applicable to any Group Company; no obligation has arisen in respect of the general notification requirements under Chapter 15.3 of SUP, save in any of the foregoing cases to an extent which would not (singly or in the aggregate) be material in the context of the relevant Contingent Capital Subscription.

7.4 Save as disclosed in the Relevant Documents on or prior to the relevant Contingent Capital Notice Date (in the case of Warranties given on such date) or the relevant Contingent Capital Completion Date (in the case of Warranties given on such date), any Previous Announcements, the Accounts or the Interim Accounts or as otherwise would not (singly or in the aggregate) be material in the context of the relevant Contingent Capital Subscription, no Group Company is the subject o f any investigation, enforcement action (including, without limitation to vary the terms of any permission of licence) or disciplinary proceeding by the FSA or any other regulatory body having jurisdiction over such Group Company, and no such investigation, enforcement action or disciplinary proceeding is threatened or pending.

7.5 The operations of each Group Company are and have been conducted at all times in material compliance with the money laundering statutes of all jurisdictions, the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or enforced by any governmental agency (collectively, the "**Money Laundering Laws**") and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving any Group Company with respect to Money Laundering Laws is pending or, to the best knowledge of the Company, threatened.

7.6 None of the Company, any other member of the Group or, to the knowledge of the Company, any director, officer, agent, employee or Affiliate of the Company is currently subject to any sanctions administered by the U.S. Department of the Treasury ("**OFAC**") or any similar sanctions imposed by the European Union, the United Nations or any other body, governmental or other, to which the Company or any of its Affiliates is subject (collectively, "**other economic sanctions**"); and the Company will not directly or indirectly use the proceeds of the relevant Contingent Capital Subscription, or lend, contribute or otherwise make available such proceeds to any other member of the Group, joint venture partner or other person or entity, for the purpose of financing the activities of any person currently subject to any sanctions administered by OFAC or any other economic sanctions.

7.7 None of the Company, any other member of the Group or, to the knowledge of the Company, any director, officer, agent, employee or Affiliate of the Company, is aware of or has taken any action, directly or indirectly, that could result in a violation by such persons of the U.S. Foreign Corrupt Practices Act of 1977, as amended, or the rules and regulations thereunder (the FCPA) (including, without limitation, making use of the mail or any means or instrument of interstate commerce corruptly in furtherance of an offer, payment, promise to pay or authorisation of the payment of any money, or other property, gift, promise to give, or authorisation of the giving of anything of value to any "foreign official" (as such term is defined in the FCPA) or any foreign political office, in contravention of the FCPA), the OECD Convention on Bribery of Foreign Public Officials in International Business Transactions (the OECD Convention) or any similar law or regulation, to which the Company, any other member of the Group, any director, officer, agent, employee of any member of the Group or, to the knowledge of the Company, any Affiliate is subject; and the Company, each member of the Group and, to the knowledge of the Company, its Affiliates have conducted their businesses in compliance with the FCPA, the OECD Convention and any applicable similar law or regulation and have instituted and maintain policies and procedures designed to ensure, and which are reasonably expected to continue to ensure, continued compliance therewith.

8. Disclosure

The Company has complied, and is continuing to comply, in all respects with Principle 4 set out in Listing Rule 7.2.1R and with DTR 2.2.1

9. Position since Accounts Date

Since the Accounts Date and save as disclosed in the Relevant Documents on or prior to the relevant Contingent Capital Notice Date (in the case of Warranties given on such date) or the relevant Contingent Capital Completion Date (in the case of Warranties given on such date), any Previous Announcements, the Interim Accounts or any other written agreement which is entered into between the Company and HM Treasury on or before the date of this Agreement and which is stated specifically to be a disclosure against any of the following Warranties:

(A) each Group Company has carried on its respective business in the ordinary course in all material respects, and there has been no Material Adverse Effect;

(B) there has been no material impairment to charges in respect of any assets of the Company or of any Group Company, and there has been no increase in the provisions in respect of losses in relation to any mortgage, loans or other assets of the Company or of any Group Company that, in any of the foregoing cases, would, or would be reasonably likely to, be (singly or in the aggregate) material in the context of the relevant Contingent Capital Subscription;

(C) save for this Agreement, the Accession Documents, any agreements entered into in connection with the Placing and Open Offer and any utilisation by the Company of the liquidity measures being made available by the Bank of England (in the form notified by HM Government to the European Commission on 12 October 2008), no Group Company has, otherwise than in the ordinary course of business, entered into or assumed or incurred any contract, commitment (whether in respect of capital expenditure or otherwise), borrowing, indebtedness in the nature of borrowing, guarantee, liability (including contingent liability) or any other agreement or obligation that, in any of the foregoing cases, would, or would be reasonably likely to, be (singly or in the aggregate) material in the context of the relevant Contingent Capital Subscription;

(D) other than in the ordinary course of business, no debtor has been released by the Company to an extent which (singly or in the aggregate) is material in the context of the relevant Contingent Capital Subscription on terms that he pays less than the book value of his debt and no debt of such material amount owing to the Company or any Group Company has been deferred, subordinated or written off or has proven irrecoverable to any material extent;

(E) no Group Company has been involved in any transaction (other than any transaction provided for in this Agreement or the Accession Documents) which has resulted or would be reasonably likely to result (singly or in the aggregate) in any liability for Tax on the Company or any Group Company, which, in any of the foregoing cases, would, or would be reasonably likely to, be (singly or in the aggregate) material in the context of the relevant Contingent Capital Subscription other than a transaction in the ordinary course of business; and

(F) no Group Company has been in default in any material respect under any agreement or arrangement to which any Group Company is a party and which is or is reasonably likely to be material and there are no circumstances likely to give rise to such default, to an extent which (singly or in the aggregate) would, or would be reasonably likely to, be material in the context of the relevant Contingent Capital Subscription.

10. Litigation

10.1 Save as disclosed in the Relevant Documents on or prior to the relevant Contingent Capital Notice Date (in the case of Warranties given on such date) or the relevant Contingent Capital Completion Date (in the case of Warranties given on such date), any Previous Announcements, the Accounts or the Interim Accounts, no Group Company nor any of its officers or agents or employees is involved, or has during the recent past (being not less than 12 months ending on the date of this Agreement) been involved in

any civil, criminal, arbitration, administrative, governmental or other proceedings or governmental regulatory or similar investigation or enquiry, whether as plaintiff, defendant or otherwise which, by itself or with other proceedings, would be, or is reasonably likely to be, material in the context of the relevant Contingent Capital Subscription.

10.2 Save as disclosed in the Relevant Documents on or prior to the relevant Contingent Capital Notice Date (in the case of Warranties given on such date) or the relevant Contingent Capital Completion Date (in the case of Warranties given on such date), any Previous Announcements, the Accounts or the Interim Accounts, no litigation or arbitration, administrative, governmental, civil, criminal or other proceedings nor governmental, regulatory or similar investigation or enquiry are pending or have been threatened by or against any Group Company or any of their respective officers, agents or employees in relation to the affairs of any Group Company and, to the best of the knowledge, information and belief of the Company and the Directors, there are no facts or circumstances likely to give rise to any such litigation or arbitration, administrative, criminal, governmental, civil, or other proceedings or governmental, regulatory or similar investigation or enquiry, in each case, to an extent which, by itself or with other proceedings, would be, or is reasonably likely to be, material in the context of the relevant Contingent Capital Subscription.

10.3 Save as disclosed in the Relevant Documents on or prior to the relevant Contingent Capital Notice Date (in the case of Warranties given on such date) or the relevant Contingent Capital Completion Date (in the case of Warranties given on such date), any Previous Announcements, the Accounts or the Interim Accounts, no Group Company nor any of its officers or agents or employees in relation to the affairs of any Group Company has been a party to any undertaking or assurance given to any court or governmental agency or the subject of any injunction which in any of the foregoing cases is still in force and which, by itself or with other proceedings, which would be, or is reasonably likely to be, material in the context of the relevant Contingent Capital Subscription.

10.4 For the purpose of this paragraph 10, proceedings includes any action by any governmental, public or regulatory authority (including any investment exchange or any authority or body which regulates investment business or takeovers or which is concerned with regulatory, licensing, competition, taxation matters or matters concerning Intellectual Property Rights).

11. Arrangements with directors and shareholders

11.1 Save for the articles of association of the Company, any service agreement with a Director and any contracts entered into in the ordinary course of business, there are no existing contracts or engagements or other arrangements to which any Group Company is a party and in which any of the directors of any Group Company and/or any associate of any of them is interested which would be material in the context of the relevant Contingent Capital Subscription; and to the extent that any such contracts, engagements or other arrangements exist they comply with the related party requirements of the Listing Rules of the UK Listing Authority (or other relevant regulator).

11.2 No Shareholder has any rights, in his capacity as such, in relation to any Group Company other than as set out in the articles of association of the Company.

11.3 The Company is not aware of any claim, demand or right of action against any Group Company otherwise than for accrued remuneration in accordance with their contracts of employment by any officer or employee (or former officer or employee) of the Group and/or any associate of them in any of the foregoing cases to an extent that (singly or in the aggregate) would, or would be reasonably likely to, be material in the context of the relevant Contingent Capital Subscription.

11.4 So far as the Company is aware, no Director nor any person connected with such Director nor any of the employees of the Group nor any person connected with any such employee is in breach of any restrictive covenant, employment agreement or contract for services which would, or would be reasonably likely to, affect the Company or any other Group Company and so far as the Company is aware, there are no circumstances which might give rise to any claim of such a breach or any other dispute with any employer, former employer or other person for whom any Director or employee of the Group provides or has provided services, in any of the foregoing cases to an extent that (singly or in the aggregate) would, or would be reasonably likely to, be material in the context of the relevant Contingent Capital Subscription.

11.5 For the purpose of this paragraph 11, associate has the meaning:

(A) in the case of an individual, given to "connected person" under section 96B(2) of FSMA; and

(B) in the case of a body corporate, given to "associated company" in sections 416 *et seq.* of the Income and Corporation Taxes Act 1988.

12. Agreements

Save as contemplated by this Agreement or in respect of the Convertible Preference Shares or any Alternative Coupon Satisfaction Mechanism or as would not (singly or in the aggregate) be material in the context of the relevant Contingent Capital Subscription, there is no agreement, undertaking, instrument or arrangement requiring the creation, allotment, issue, redemption or repayment, or the grant to any person of the right (whether conditional or not) to require the allotment, issue, redemption or repayment, of any shares in the capital of the Company or a Material Subsidiary (including, without limitation, an option or right of pre-emption or conversion).

13. Cash box

If and to the extent the relevant Contingent Capital Subscription is structured by means of any arrangement whereby the consideration for the issue of the Contingent Capital Shares is to be satisfied by the transfer to the Company by HM Treasury of shares in another company:

(A) the relevant cashbox company has not undertaken any obligations or liabilities except pursuant to, or as contemplated by, the documents equivalent to the

Cashbox Documents entered into in connection with such structure or otherwise agreed in writing with HM Treasury; and

(B) the relevant cashbox company is and will remain resident in the United Kingdom and nowhere else for United Kingdom tax purposes.

SCHEDULE 5

PRO FORMA NOVATION AGREEMENT

THIS NOVATION AGREEMENT is made the [•] day of [•], 20[•]

BETWEEN:

1. **THE COMMISSIONERS OF HER MAJESTY'S TREASURY,** of 1 Horse Guards Road, London SW1A 2HQ ("**HM Treasury**")

2. **THE ROYAL BANK OF SCOTLAND GROUP PLC**, a company incorporated in Scotland with registered number 45551 whose registered office is at 36 St Andrew Square, Edinburgh EH2 2YB ("**RBS**")

AND

3. [ ] of [ ] (registered in England No. [ ]) (the "**Company**")

WHEREAS:

(A) HM Treasury and RBS have entered into the Acquisition and Contingent Capital Agreement (as defined in this agreement).

(B) Pursuant to clause 14.10 of the Acquisition and Contingent Capital Agreement, HM Treasury wishes to be released and discharged from the Acquisition and Contingent Capital Agreement and RBS has agreed to release and discharge HM Treasury from the Acquisition and Contingent Capital Agreement upon the terms of the Company's undertaking to perform the Acquisition and Contingent Capital Agreement and be bound by its terms in the place of HM Treasury and HM Treasury agreeing to guarantee the Company's obligations in respect of the Acquisition and Contingent Capital Agreement.

NOW IT IS AGREED as follows:-

1. INTERPRETATION

1.1 In this agreement:

"Acquisition and Contingent Capital Agreement"	means the acquisition and contingent capital agreement dated [•] November 2009 between HM Treasury and RBS relating to the acquisition by HM Treasury of 51,000,000,000 Series 1 Class B Shares of 1 penny each in the capital of RBS and of a Series 1 Dividend Access Share of 1 penny and to a commitment by HM Treasury to acquire further Series 1 Class B Shares.

1.2 In this agreement, unless otherwise specified:

(A) references to clauses and sub-clauses are to clauses and sub-clauses of this agreement; and

(B) headings to clauses and schedules are for convenience only and do not affect the interpretation of this agreement.

2. COMPANY'S UNDERTAKING

With effect from the date of this agreement and in consideration of the undertakings given by RBS in clause 3, the Company hereby undertakes to observe, perform, discharge and be bound by the Acquisition and Contingent Capital Agreement as if the Company were a party to that agreement in the place of HM Treasury. Notwithstanding this undertaking, nothing in this agreement shall:

(A) require the Company to perform any obligation created by or arising under the Acquisition and Contingent Capital Agreement falling due for performance, or which should have been performed, before the date of this agreement;

(B) make the Company liable for any act, neglect, default or omission in respect of the Acquisition and Contingent Capital Agreement committed by HM Treasury or occurring before the date of this agreement; or

(C) impose any obligation on the Company for or in respect of any obligation performed by HM Treasury under the Acquisition and Contingent Capital Agreement before the date of this agreement.

3. RBS UNDERTAKING AND RELEASE OF HM TREASURY

3.1 With effect from the date of this agreement and in consideration of the undertakings given by the Company in clause 2 and the undertakings and guarantee given by HM Treasury in clauses 4 and 5 respectively, RBS hereby:

(A) releases and discharges HM Treasury from all obligations to observe, perform, discharge and be bound by the Acquisition and Contingent Capital Agreement;

(B) accepts the Company's undertaking to observe, perform, discharge and be bound by the Acquisition and Contingent Capital Agreement (such undertaking being set out in clause 2); and

(C) agrees to observe, perform, discharge and be bound by the Acquisition and Contingent Capital Agreement as if the Company were a party to the Acquisition and Contingent Capital Agreement in the place of HM Treasury.

3.2 Notwithstanding the provisions of clause 3.1(B), nothing in this agreement shall affect or prejudice any claim or demand whatsoever which RBS may have against HM Treasury in relation to the Acquisition and Contingent Capital Agreement and arising out of matters prior to the date of this agreement.

4. HM TREASURY'S UNDERTAKING AND RELEASE OF RBS

With effect from the date of this agreement and in consideration of the undertakings given by RBS in clause 3, HM Treasury hereby releases and discharges RBS from all obligations to observe, perform, discharge and be bound by the Acquisition and

Contingent Capital Agreement. Notwithstanding this undertaking and release, nothing in this agreement shall affect or prejudice any claim or demand whatsoever which HM Treasury may have against RBS in relation to the Acquisition and Contingent Capital Agreement and arising out of matters prior to the date of this agreement.

5. GUARANTEE AND INDEMNITY

5.1 In consideration of the undertakings given by RBS in clause 3, HM Treasury hereby unconditionally and irrevocably guarantees to RBS the due and punctual performance and observance by the Company of all its obligations, commitments and undertakings under or pursuant to this agreement and agrees to indemnify RBS on an after-Tax basis against all loss, damage, costs and breach by the Company of its obligations, commitments or undertakings under or pursuant to this agreement. The liability of HM Treasury under this agreement shall not be released or diminished by any variation of the terms of this agreement or the Acquisition and Contingent Capital Agreement as novated by this agreement (whether or not agreed by HM Treasury), any forbearance, neglect or delay in seeking performance of the obligations hereby imposed or any granting of time for such performance.

5.2 If and whenever the Company defaults for any reason whatsoever in the performance of any obligation or liability undertaken or expressed to be undertaken by the Company under or pursuant to this agreement, HM Treasury shall forthwith upon demand unconditionally perform (or procure performance of) and satisfy (or procure the satisfaction of) the obligation or liability in regard to which such default has been made and so that the same benefits shall be conferred on RBS as such party would have received if such obligation or liability had been duly performed and satisfied by the Company.

5.3 This guarantee is to be a continuing guarantee and accordingly is to remain in force until all the obligations, commitments and undertakings of the Company referred to in sub-clause 5.1 shall have been performed or satisfied. This guarantee is in addition to and without prejudice to and not in substitution for any rights or security which RBS may now or hereafter have or hold for the performance and observance of the obligations, commitments and undertakings of the Company under or in connection with this agreement.

5.4 As a separate and independent stipulation HM Treasury agrees that any obligation expressed to be undertaken by the Company (including, without limitation, any moneys expressed to be payable under this agreement or the Acquisition and Contingent Capital Agreement as novated by this agreement) which may not be enforceable against or recoverable from the Company by reason of any legal limitation, disability or incapacity on or of the Company or any other fact or circumstance (other than any limitation imposed by this agreement or the Acquisition and Contingent Capital Agreement as novated by this agreement) shall nevertheless be enforceable against and recoverable from HM Treasury as though the same had been incurred by HM Treasury and HM Treasury were the sole or principal obligor in respect thereof.

6. COMPANY CEASES TO BE WHOLLY OWNED BY HM TREASURY

In the event that the Company at any time after the date of this agreement ceases to be directly or indirectly wholly-owned by HM Treasury, the Company shall, and HM Treasury will procure that the Company shall, enter into a novation agreement upon substantially the same terms as this agreement such that the rights and obligations assumed by the Company under this agreement are novated either to HM Treasury or to an entity which is, directly or indirectly, wholly owned by HM Treasury. RBS agrees to consent to, and to execute and deliver all such documentation as may be necessary to effect, such novation.

7. NOTICES

For the purposes of all provisions in the Acquisition and Contingent Capital Agreement concerning the service of notices, the address of the Company is its registered office as shown above from time to time and its fax number is [•]. All notices served on the Company under the Acquisition and Contingent Capital Agreement should be marked for the attention of [•].

8. COUNTERPARTS

8.1 This agreement may be executed in any number of counterparts, and by the parties on separate counterparts, but shall not be effective until each party has executed at least one counterpart.

8.2 Each counterpart shall constitute an original of this agreement, but all the counterparts shall together constitute but one and the same instrument.

9. GOVERNING LAW

The parties hereto agree that this agreement and any non-contractual obligations arising out of or in connection with it shall be governed by and construed in accordance with English law and that the courts of England and Wales are to have exclusive jurisdiction to settle any matter, claim or dispute arising hereunder and submit to the jurisdiction of the English Courts.

[*To be included if the Company is not a company incorporated in England:*

10. AGENT FOR SERVICE OF PROCESS

The Company shall at all times maintain an agent for service of process and for service of any other documents and proceedings in England, or any other proceedings in connection with this Agreement. Such agent shall be [agent with address in England] and any writ, judgment or other notice of legal process shall be sufficiently served on the Company if delivered to such agent at its address for the time being. The Company irrevocably undertakes not to revoke the authority of the above agent and if, for any reason, the agent ceases to act as such, the Company shall appoint a replacement agent having an address for service in England and shall notify RBS of the name and address of such replacement agent. If the Company fails to appoint another agent, RBS

shall be entitled to appoint one on the Company's behalf and at the Company's expense.]

IN WITNESS of which this Agreement has been executed on the date which first appears on page 1 of this Agreement.

.....

.....

For and on behalf of
THE COMMISSIONERS OF HER MAJESTY'S TREASURY

.....

For and on behalf of
THE ROYAL BANK OF SCOTLAND GROUP PLC

.....

For and on behalf of
[*Insert name of the Company*]

SCHEDULE 6

B SHARE TERMS

Terms of Issue of the RBSG Series 1 Class B Shares

1 General

Each Series 1 Class B Share will have a nominal value of £0.01 and will be fully paid up at issue. The Series 1 Class B Shares will be issued in registered form and may be held in either certificated form or uncertificated in CREST. Temporary documents of title in relation to the Series 1 Class B Shares in certificated form will not be issued pending despatch by post of definitive certificates. Capitalised terms used and not otherwise defined herein shall have the respective meanings ascribed thereto in paragraph 14 below.

2 Series 1 Class B Dividends

2.1 For so long as a Series 1 Class B Dividend Trigger Event has not occurred in respect of any Series 1 Class B Shares, the Series 1 Class B Shares shall rank *pari passu* with the holders of the Company's Ordinary Shares in respect of any cash dividends paid on the Ordinary Shares. Each Series 1 Class B Share shall entitle its holder to the same cash dividend (the "**Series 1 Class B Dividend**") as is (or may, at the election of a holder of an Ordinary Share, be) payable to the holder of one (as adjusted from time to time as provided below, the "**Pay-out Ratio**") Ordinary Share.

If a Series 1 Class B Dividend Trigger Event has occurred in respect of any Series 1 Class B Shares, the Series 1 Class B Shares in respect of which the Series 1 Class B Dividend Trigger Event has occurred shall rank *pari passu* with the holders of the Company's Ordinary Shares in respect of any dividends paid on the Ordinary Shares. Each Series 1 Class B Share shall entitle its holder to the same dividend as is (or may, at the election of a holder of an Ordinary Share, be) payable to the holder of one (as adjusted from time to time as provided below, the "**Pay-out Ratio**") Ordinary Share. If an Ordinary Share Bonus Issue is made, a holder of a Series 1 Class B Share in respect of which the Series 1 Class B Dividend Trigger Event has occurred shall be entitled to receive the same number of Ordinary Shares as is payable to the holder of one (as adjusted from time to time as provided below) Ordinary Share, save that if the issue of such Ordinary Share(s) to such holder would result in it holding directly or indirectly more than 75 per cent. of the total issued Ordinary Shares then such holder shall instead receive further Series 1 Class B Shares. The number of such further Series 1 Class B Shares to be issued to such holder shall be such number of Series 1 Class B Shares as shall be certified by the Independent Financial Adviser (acting as an expert) to be as nearly as possible equal to (but not greater than) the Fair Market Value (disregarding any tax credit) of the number of Ordinary Shares to be issued to the holder of one Ordinary Share (as adjusted from time to time as provided below) in such Ordinary Share Bonus Issue, based on the Fair Market Value of a Series 1 Class B Share at the time of such determination. A written opinion of the Independent Financial Adviser in respect thereof shall be conclusive and binding on all parties, save in the case of manifest error.

If and whenever there shall be a consolidation, redesignation or subdivision in relation to:

(i) the Ordinary Shares, the Pay-out Ratio shall be adjusted by multiplying the Pay-out Ratio in force immediately prior to such consolidation, redesignation or subdivision by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate number of Ordinary Shares in issue immediately after, and as a result of, such consolidation, redesignation or subdivision, as the case may be; and

B is the aggregate number of the Ordinary Shares in issue immediately before such consolidation, redesignation or subdivision, as the case may be.

Such adjustment shall become effective on the date the consolidation, redesignation or subdivision, as the case may be, takes effect.

(ii) the Series 1 Class B Shares, the Pay-out Ratio shall be adjusted by dividing the Pay-out Ratio in force immediately prior to such consolidation, redesignation or subdivision by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate number of Series 1 Class B Shares in issue immediately after, and as a result of, such consolidation, redesignation or subdivision, as the case may be; and

B is the aggregate number of the Series 1 Class B Shares in issue immediately before such consolidation, redesignation or subdivision, as the case may be.

Such adjustment shall become effective on the date the consolidation, redesignation or subdivision, as the case may be, takes effect.

2.2 The record date for any such dividend payment on the Series 1 Class B Shares and the date on which such payment is to be made shall be the same such dates for the corresponding payment under the Dividend Access Share.

2.3 The Company shall, upon determining any dividend pursuant to this paragraph 2, cause the amount thereof to be notified to the holders of Series 1 Class B Shares in accordance with paragraph 9 and, if and for so long as the Series 1 Class B Shares are listed on the London Stock Exchange and such exchange so requires, to such exchange as soon as possible after determination of the rate but in no event later than the fourth Business Day thereafter.

2.4 Subject to these terms of issue, the Company will, if to be paid, pay Series 1 Class B Dividends out of its distributable profits in sterling. Series 1 Class B Dividends may be paid by the Company by crediting any account which the holder of the Series 1 Class B

Shares, or in the case of joint holders, the holder whose name stands first in the register in respect of the Series 1 Class B Shares, has with the Company, whether in the sole name of such holder or the joint names of such holder and another person or persons, unless the Company has received not less than one month's notice in writing from such holder or joint holders directing that payment be made in another manner permitted by the Articles

Any Series 1 Class B dividend, if to be paid, may also be paid by cheque sent by post addressed to the holder of the Series 1 Class B Shares at his registered address or, in the case of joint holders, addressed to the holder whose name stands first in the register in respect of the Series 1 Class B Shares at his address as appearing in such register or addressed to such person at such address as the holder or joint holders may in writing direct and despatched so as to be received by the holder of the Series 1 Class B Shares on or before the date for payment of such Series 1 Class B dividend. The Company shall not be liable to the holders of the Series 1 Class B Shares in any way if such cheque is received late due to postal delays or strikes.

Any such Series 1 Class B dividend may be paid by any bank or other funds transfer system or, if agreed by the Company, such other means and to or through such person, in each case as the holder or joint holders may in writing direct.

If payment in respect of the Series 1 Class B Shares into any such bank account is to be made on a Class B dividend payment date which is not a Business Day, then payment of such amount will be made on the next succeeding Business Day, without any interest or payment in respect of such delay.

Payments in respect of amounts payable by way of Class B dividend will be subject in all cases to any applicable fiscal or other laws and other regulations.

The Board of Directors may undertake and do such acts and things as they may consider necessary or expedient for the purpose of giving effect to the provisions of this paragraph 2.

3 Rights upon Liquidation

On a winding-up or liquidation, voluntary or otherwise, holders of Series 1 Class B Shares will rank in the application of the assets of the Company available to shareholders: (1) equally in all respects with holders of the Dividend Access Share and the Ordinary Shares and any other class of shares or securities of the Company in issue or which may be issued by the Company which rank or are expressed to rank equally with the Series 1 Class B Shares, the Dividend Access Share or the Ordinary Shares on a winding-up or liquidation and (2) junior to all other shareholders and all creditors of the Company.

In such event a holder of a Series 1 Class B Share will be deemed to hold one (as adjusted from time to time as provided below, the "**Winding Up Ratio**") Ordinary Share for each Series 1 Class B Share held by him and will be entitled to receive out of the surplus assets of the Company remaining after payment of all prior-ranking claims, a sum equal to that payable to a holder of one (as adjusted) Ordinary Share in such event for each Series 1 Class B Share held by him.

The initial Winding Up Ratio is one. Upon the happening of any of the events in respect of which the Conversion Price shall be adjusted as provided in:

(i) sub-paragraphs 4(*b*)(i) to (x) (inclusive) below, the Winding Up Ratio shall also be adjusted at the same time as follows:

$$\text{NWUR} = \text{OWUR} \times \frac{\text{OCP}}{\text{NCP}}$$

and

(ii) paragraph 4(l) below, the Winding Up Ratio shall also be adjusted at the same time as follows:

$$\textit{NWUR} = \textit{OWUR} \times \frac{\textit{NRA}}{\textit{ORA}}$$

where:

NWUR means the new Winding Up Ratio, following such adjustment;

OWUR means the old Winding Up Ratio, immediately prior to such adjustment;

NCP means the new Conversion Price, following such adjustment;

OCP means the old Conversion Price, immediately prior to such adjustment;

NRA means the new Relevant Amount, following such adjustment; ad

ORA means the old Relevant Amount, immediately prior to such adjustment

4 Conversion

(a) Conversion Period and Conversion Price

Subject as provided herein, each Series 1 Class B Share shall entitle the holder to convert such Series 1 Class B Share into new and/or existing Ordinary Shares as determined by the Company, credited as fully paid (a "**Conversion Right**").

The number of Ordinary Shares to be created, issued or transferred and delivered per Series 1 Class B Share on exercise of a Conversion Right shall be determined by dividing the Relevant Amount in effect on the relevant Conversion Date (as defined below) of the Series 1 Class B Shares to be converted by the Conversion Price in effect on the relevant Conversion Date.

A holder of Series 1 Class B Shares may exercise the Conversion Right in respect of a Series 1 Class B Share by delivering such Series 1 Class B Share to the specified office of the Registrar in accordance with paragraph 4(*h*) whereupon the Company shall (subject as provided herein) procure the delivery to, or as directed by, the relevant holder of Series 1 Class B Shares of Ordinary Shares credited as paid up in full as provided in this paragraph 4. A holder of a Series 1 Class B Share in uncertificated form shall exercise the Conversion Right attached to such Series 1 Class B Share by complying with the rules from time to time laid down by the Company in a manner consistent with the Regulations.

Subject to and as provided herein, the Conversion Right in respect of a Series 1 Class B Share may be exercised, at the option of the holder thereof, at any time

(subject to any applicable fiscal or other laws or regulations and as hereinafter provided) from the Issue Date.

The period during which Conversion Rights may (subject as provided below) be exercised by a holder of Series 1 Class B Shares is referred to as the "**Conversion Period**".

Fractions of Ordinary Shares will not be created, issued or transferred and delivered on conversion or pursuant to paragraph 4(c) and no cash payment or other adjustment will be made in lieu thereof. However, if the Conversion Right in respect of more than one Series 1 Class B Share is exercised at any one time such that Ordinary Shares to be delivered on conversion or pursuant to paragraph 4(c) are to be registered in the same name, the number of such Ordinary Shares to be delivered in respect thereof shall be calculated on the basis of the aggregate Relevant Amount (as in effect on the relevant Conversion Date) of such Series 1 Class B Shares being so converted and rounded down to the nearest whole number of Ordinary Shares.

The Company will procure that Ordinary Shares to be created, issued or transferred and delivered on conversion will be created, issued or transferred and delivered to the holder of the Series 1 Class B Shares completing the relevant Conversion Notice or his nominee. Such Ordinary Shares will be deemed to be created, issued or transferred and delivered as of the relevant Conversion Date. Any Additional Ordinary Shares to be created, issued or transferred and delivered pursuant to paragraph 4(c) will be deemed to be created, issued or transferred and delivered as of the relevant Reference Date.

Conversion of the Relevant Shares may be effected in such manner as the Board of Directors shall in its sole discretion from time to time determine, whether in accordance with the following provisions of this paragraph 4(a) or the provisions of the Articles, or as may otherwise be permitted by applicable law (and by the Regulations in the case of shares in uncertificated form).

The Board of Directors may, subject as herein provided, elect to redeem the Relevant Shares (or any of them) at the Relevant Amount on any Conversion Date out of the profits of the Company which would otherwise be available for distribution to the holders of any class of shares. The Series 1 Class B Shares shall confer upon the holders thereof the right and the obligation (in the event that the Series 1 Class B Shares held by them respectively become Relevant Shares and the Board of Directors determine to redeem the same at the Relevant Amount out of profits as aforesaid) to subscribe for or acquire, simultaneously with such redemption, the appropriate number of Ordinary Shares (calculated at the applicable Conversion Price) at such premium (if any) as shall represent the amount by which the redemption moneys exceed the nominal amount of the Ordinary Shares to which the holders are so entitled. In any such case, the Conversion Notice given by a holder of Relevant Shares shall be deemed irrevocably to authorise and instruct the Secretary of the Company (or any other person appointed for the purpose by the Board of Directors) to apply the redemption moneys payable to him, simultaneously with such redemption, in subscribing for or acquiring such Ordinary Shares at such premium (if any) as aforesaid.

The Board of Directors may, subject as herein provided, elect to redeem the Relevant Shares (or any of them) on any Conversion Date at the Relevant Amount out of the proceeds of a fresh issue of Ordinary Shares. The Series 1 Class B Shares shall confer upon the holders thereof the right and the obligation (in the event that the Series 1 Class B Shares held by them respectively become Relevant Shares and the Board of Directors determines to redeem the same at the Relevant Amount out of the proceeds of a fresh issue as aforesaid) to subscribe, and the holders shall be deemed irrevocably to authorise and instruct the Secretary of the Company (or any other person appointed for the purpose by the Board of Directors) to subscribe, as agent on the holders' behalf, simultaneously with such redemption, for the appropriate number of Ordinary Shares (which authority shall include the right to borrow money) (calculated at the applicable Conversion Price) at such premium (if any) as shall represent the amount by which the redemption moneys exceed the nominal amount of the Ordinary Shares to which the holders are so entitled. In any such case, the Conversion Notice given by or relating to a holder of Relevant Shares shall be deemed irrevocably to authorise and instruct the Board of Directors to apply the redemption moneys payable to him, simultaneously with such redemption, in payment to his said agent.

The Board of Directors may determine to effect conversion by means of consolidation and sub-division. In such case the requisite consolidation and sub-division shall be effected pursuant to the shareholder authority given by the passing in General Meeting of a resolution at the same General Meeting at which the initial resolution was passed creating the Class B Share Capital and authorising the Board of Directors to set the terms of the Series 1 Class B Shares, by (i) consolidating into one share all the Relevant Shares at any Conversion Date held by any holder or joint holders (treating holdings of the same holder or joint holders in certificated form and uncertificated form as separate holdings, unless the Board of Directors otherwise determines) and (ii) sub-dividing such consolidated share into shares of £0.25 each (or such other amount as may be appropriate as a result of any consolidation, sub-division, repayment or reduction of capital or other event giving rise to an adjustment of the nominal amount of the Ordinary Shares) of which such number of shares as may be appropriate shall be Ordinary Shares and the balance of such shares (including any fractions) shall be Non-voting Deferred Shares Series B (in certificated form, unless the Board of Directors otherwise determines) (each a "**Non-Voting Deferred Share Series B**") which shall have the rights and be subject to the restrictions set out in the Articles.

The Board of Directors may determine to effect conversion by means of capitalisation issue under Article 148, consolidation and sub-division. In such case the requisite capitalisation issue, consolidation and sub-division shall be effected pursuant to the shareholder authority given by the passing in General Meeting of a resolution at the same General Meeting at which the initial resolution was passed creating the Class B Share Capital and authorising the Board of Directors to set the terms of the Series 1 Class B Shares, by capitalising from profits or reserves (including any share premium account, capital redemption reserve, merger reserve, revaluation reserve or any other reserve, including distributable reserves) such number of new Series 1 Class B Shares (the "**Capitalisation Issue Shares**") as shall bring the total nominal

amount of the Relevant Shares and the Capitalisation Issue Shares to at least the total nominal amount of the Ordinary Shares to which the holders of the Relevant Shares are entitled on conversion, consolidating into one share all the Relevant Shares at any Conversion Date held by any holder or joint holders (treating holdings of the same holder or joint holders in certificated form and uncertificated form as separate holdings, unless the Board of Directors otherwise determines) and such number of the relevant Capitalisation Issue Shares as may be determined by the Board of Directors and sub-dividing such consolidated share into shares of £0.25 each (or such other amount as may be appropriate as a result of any consolidation, sub-division, repayment or reduction of capital or other event giving rise to an adjustment of the nominal amount of the Ordinary Shares) of which such number of shares as may be appropriate shall be Ordinary Shares and the balance of such shares (including any fractions) shall be Non-Voting Deferred Shares Series B (in certificated form, unless the Board of Directors otherwise determines) which shall have the rights and be subject to the restrictions set out in the Articles.

Any conversion effected pursuant to this paragraph 4*(a)* which gives rise to Non-Voting Deferred Shares Series B being held by holders of Relevant Shares shall be deemed irrevocably to authorise and instruct the Secretary of the Company (or any other person appointed for the purpose by the Board of Directors) as agent for the holders of the Non-Voting Deferred Shares Series B to surrender the Non-Voting Deferred Shares Series B to the Company for no consideration and to execute on behalf of such holders such documents as are necessary in connection with such surrender without obtaining the sanction of the holder or holders thereof, and pending such surrender to retain the certificate for such Non-Voting Deferred Shares Series B.

No adjustments shall be made to the Conversion Price, Relevant Amount or Winding Up Ratio as a result of any steps taken by the Company as described in this paragraph 4(*a*) in order to effect conversion of the Relevant Shares.

(b) Adjustment of Conversion Price

Upon the happening of any of the events described below, the Conversion Price shall be adjusted as follows:

(i) If and whenever there shall be a consolidation, redesignation or subdivision in relation to the Ordinary Shares, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such consolidation, redesignation or subdivision by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate number of Ordinary Shares in issue immediately before such consolidation, redesignation or subdivision, as the case may be; and

B is the aggregate number of Ordinary Shares in issue immediately after, and as a result of, such consolidation, redesignation or subdivision, as the case may be.

Such adjustment shall become effective on the date the consolidation, redesignation or subdivision, as the case may be, takes effect.

(ii) If and whenever the Company shall issue any Ordinary Shares credited as fully paid to the Shareholders by way of capitalisation of profits or reserves (including but not limited to any share premium account, capital redemption reserve, merger reserve or revaluation reserve) other than (1) where any such Ordinary Shares are or are to be issued instead of the whole or part of a Dividend in cash which the Shareholders would or could otherwise have elected to receive, (2) where the Shareholders may elect to receive a Dividend in cash in lieu of such Ordinary Shares or (3) where any such Ordinary Shares are issued by way of an Ordinary Share Bonus Issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate number of Ordinary Shares in issue immediately before such issue; and

B is the aggregate number of Ordinary Shares in issue immediately after such issue.

Such adjustment shall become effective on the date of issue of such Ordinary Shares.

(iii) If and whenever the Company shall pay or make any Capital Distribution to the Shareholders, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A-B}{A}$$

where:

A is the Current Market Price of one Ordinary Share on the Effective Date; and

B is the portion of the Fair Market Value of the aggregate Capital Distribution attributable to one Ordinary Share, with such portion being determined by dividing the Fair Market Value of the aggregate Capital Distribution by the number of Ordinary Shares entitled to receive the relevant Capital Distribution.

Such adjustment shall become effective on the Effective Date or, if later, the first date upon which the Fair Market Value of the relevant Capital Distribution is capable of being determined as provided herein.

"**Effective Date**" means, in respect of this sub-paragraph (*b*)(iii), the first date on which the Ordinary Shares are traded ex- the relevant Dividend on the Relevant Stock Exchange or in the case of a Spin-Off, the first date on which the Ordinary Shares are traded ex- the relevant Spin-Off on the Relevant Stock Exchange.

"**Capital Distribution**" means any Non-Cash Dividend.

"**Non-Cash Dividend**" means any Dividend which is not a Dividend to be declared or paid in cash, and shall include a Spin-Off.

(iv) if and whenever the Company shall issue Ordinary Shares to Shareholders as a class by way of rights, or shall issue or grant to Shareholders as a class by way of rights, any options, warrants or other rights to subscribe for or purchase any Ordinary Shares, or any Securities which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, any Ordinary Shares (or shall grant any such rights in respect of existing securities so issued), in each case at a price per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share on the Effective Date, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the number of Ordinary Shares in issue on the Effective Date;

B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares issued by way of rights, or for the Securities issued by way of rights, or for the options or warrants or other rights issued by way of rights and for the total number of Ordinary Shares deliverable on the exercise thereof, would purchase at such Current Market Price per Ordinary Share; and

C is the number of Ordinary Shares to be issued or, as the case may be, the maximum number of Ordinary Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights or upon conversion or exchange or exercise of rights of subscription or purchase in respect thereof at the initial conversion, exchange, subscription or purchase price or rate,

provided that if at the time of issue or grant (as used in this sub-paragraph (*b*)(iv), the "**Specified Date**"), such number or maximum number of Ordinary Shares which could be issued is to be determined by

reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time, then for the purposes of this sub-paragraph (*b*)(iv), 'C' shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such subscription, purchase, conversion or exchange had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

"**Effective Date**" means, in respect of this sub-paragraph (*b*)(iv), the first date on which the Ordinary Shares are traded ex-rights, ex-options or ex-warrants on the Relevant Stock Exchange.

(v) If and whenever the Company shall issue any Securities (other than the Series 1 Class B Shares, Ordinary Shares or options, warrants or other rights to subscribe for or purchase any Ordinary Shares or any Securities which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, any Ordinary Shares) to Shareholders as a class by way of rights or grant to Shareholders as a class by way of rights any options, warrants or other rights to subscribe for or purchase any Securities (other than the Series 1 Class B Shares, Ordinary Shares or options, warrants or other rights to subscribe for or purchase Ordinary Shares or any Securities which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, any Ordinary Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A-B}{A}$$

where:

A is the Current Market Price of one Ordinary Share on the Effective Date; and

B is the Fair Market Value on the Effective Date of the portion of the rights attributable to one Ordinary Share.

Such adjustment shall become effective on the Effective Date.

"**Effective Date**" means, in respect of this sub-paragraph (*b*)(v), the first date on which the Ordinary Shares are traded ex- the relevant Securities or ex-rights, ex-option or ex-warrants on the Relevant Stock Exchange

(vi) If and whenever the Company shall issue (otherwise than as mentioned in sub-paragraph (*b*)(iv) above) wholly for cash or for no consideration any Ordinary Shares (other than Ordinary Shares issued on conversion of the Series 1 Class B Shares or on the exercise of any rights of conversion into, or exchange or subscription for or purchase of, Ordinary Shares) or issue or grant (otherwise than as mentioned in sub-paragraph (*b*)(iv) above) wholly for cash or for no consideration any options, warrants or other rights to subscribe for or purchase any Ordinary Shares (other than the Series 1 Class B Shares), in each case at a price per Ordinary Share which is less than 95 per cent. of the Current Market Price

per Ordinary Share on the date of the first public announcement of the terms of such issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the number of Ordinary Shares in issue immediately before the issue of such Ordinary Shares or the grant of such options, warrants or rights;

B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the issue of such Ordinary Shares or, as the case may be, for the Ordinary Shares to be issued or otherwise made available upon the exercise of any such options, warrants or rights, would purchase at such Current Market Price per Ordinary Share; and

C is the number of Ordinary Shares to be issued pursuant to such issue of such Ordinary Shares or, as the case may be, the maximum number of Ordinary Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights,

provided that if, on the Effective Date, such number or maximum number of Ordinary Shares which could be issued is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time then, for the purposes of this sub-paragraph (*b*)(vi), 'C' shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Effective Date and as if such subscription or purchase had taken place on the Effective Date.

Such adjustment shall become effective on the Effective Date.

"**Effective Date**" means, in respect of this sub-paragraph(*b*)(vi), the date of issue of such Ordinary Shares or, as the case may be, the grant of such options, warrants or rights.

(vii) If and whenever the Company or any Subsidiary of the Company or (at the direction or request of or pursuant to any arrangements with the Company or any Subsidiary of the Company) any other company, person or entity (otherwise than as mentioned in sub-paragraphs (*b*)(iv), (*b*)(v) or (*b*)(vi) above) shall issue wholly for cash or for no consideration any Securities (other than the Series 1 Class B Shares) which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, Ordinary Shares (or shall grant any such rights in respect of existing Securities so issued) or Securities which by their terms might be redesignated as Ordinary Shares, and the consideration per Ordinary Share receivable upon conversion,

exchange, subscription or redesignation is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the terms of issue of such Securities (or the terms of such grant), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the number of Ordinary Shares in issue immediately before such issue or grant (but where the relevant Securities carry rights of conversion into or rights of exchange or subscription for Ordinary Shares which have been issued, purchased or acquired by the Company or any Subsidiary of the Company (or at the direction or request or pursuant to any arrangements with the Company or any Subsidiary of the Company) for the purposes of or in connection with such issue, less the number of such Ordinary Shares so issued, purchased or acquired);

B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription attached to such Securities or, as the case may be, for the Ordinary Shares to be issued or to arise from any such redesignation would purchase at such Current Market Price per Ordinary Share; and

C is the maximum number of Ordinary Shares to be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such right of subscription attached thereto at the initial conversion, exchange or subscription price or rate or, as the case may be, the maximum number of Ordinary Shares which may be issued or arise from any such redesignation,

provided that if at the time of issue of the relevant Securities or date of grant of such rights (as used in this sub-paragraph (*b*)(vii), the "**Specified Date**") such number or maximum number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription are exercised or, as the case may be, such Securities are redesignated or at such other time as may be provided), then for the purposes of this sub-paragraph (*b*)(vii), "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition

or, as the case may be, redesignation had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

"**Effective Date**" means, in respect of this sub-paragraph (*b*)(vii), the date of issue of such Securities or, as the case may be, the grant of such rights.

(viii) If and whenever there shall be any modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to any such Securities (other than the Series 1 Class B Shares) as are mentioned in sub-paragraph (*b*)(vii) above (other than in accordance with the terms (including terms as to adjustment) applicable to such Securities upon issue) so that following such modification the consideration per Ordinary Share receivable has been reduced and is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the proposals for such modification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the number of Ordinary Shares in issue on the dealing day immediately before such modification (but where the relevant Securities carry rights of conversion into or rights of exchange or subscription for, or purchase or acquisition of, Ordinary Shares which have been issued, purchased or acquired by the Company or any Subsidiary of the Company (or at the direction or request or pursuant to any arrangements with the Company or any Subsidiary of the Company) for the purposes of or in connection with such Securities, less the number of such Ordinary Shares so issued, purchased or acquired);

B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription, purchase or acquisition attached to the Securities so modified would purchase at such Current Market Price per Ordinary Share or, if lower, the existing conversion, exchange, subscription, purchase or acquisition price or rate of such Securities; and

C is the maximum number of Ordinary Shares which may be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such rights of subscription, purchase or acquisition attached thereto at the modified conversion, exchange, subscription, purchase or acquisition price or rate but giving credit in such manner as an

Independent Financial Adviser (acting as an expert) shall consider appropriate for any previous adjustment under this sub-paragraph (*b*)(viii) or sub-paragraph (*b*)(vii) above,

provided that if at the time of such modification (as used in this sub-paragraph (*b*)(viii), the "**Specified Date**") such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription, purchase or acquisition are exercised or at such other time as may be provided), then, for the purposes of this sub-paragraph (*b*)(viii), "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

"**Effective Date**" means, in respect of this sub-paragraph (*b*)(viii), the date of modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to such Securities.

(ix) If and whenever the Company or any Subsidiary of the Company or (at the direction or request of or pursuant to any arrangements with the Company or any Subsidiary of the Company) any other company, person or entity shall offer any Securities, in connection with which offer Shareholders as a class are entitled to participate in arrangements whereby such Securities may be acquired by them (except where the Conversion Price falls to be adjusted under sub-paragraphs (*b*)(ii), (*b*)(iii), (*b*)(iv), (*b*)(vi) or (*b*)(vii) above (or would fall to be so adjusted if the relevant issue or grant was at less than 95 per cent. of the Current Market Price per Ordinary Share on the relevant day) or under sub-paragraph (*b*)(v) above), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the Effective Date by the following fraction:

$$\frac{A-B}{A}$$

where:

A is the Current Market Price of one Ordinary Share on the Effective Date; and

B is the Fair Market Value on the Effective Date of the portion of the relevant offer attributable to one Ordinary Share.

Such adjustment shall become effective on the Effective Date.

"**Effective Date**" means, in respect of this sub-paragraph (b)(*ix*), the first date on which the Ordinary Shares are traded ex-rights on the Relevant Stock Exchange.

(x) If the Company determines that, or is requested by the holders of at least 75 per cent. of the outstanding Series 1 Class B Shares to determine whether, an adjustment should be made to the Conversion Price as a result of one or more circumstances not referred to above in this paragraph 4(*b*) or in paragraph 4*(l)* (even if the relevant circumstance is specifically excluded from the operation of sub-paragraphs (*b*)(i) to (ix) above), the Company shall, at its own expense and acting reasonably, request an Independent Financial Adviser (acting as an expert) to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof and the date on which such adjustment (if any) should take effect and upon such determination such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that an adjustment shall only be made pursuant to this sub-paragraph (*b*)(x) if such Independent Financial Adviser is so requested to make such a determination not more than 21 days after the date on which the relevant circumstance arises.

Notwithstanding the foregoing provisions,

(a) where the events or circumstances giving rise to any adjustment pursuant to this paragraph 4(*b*) or paragraph 4*(l)* have already resulted or will result in an adjustment to the Conversion Price or where the events or circumstances giving rise to any adjustment arise by virtue of any other events or circumstances which have already given or will give rise to an adjustment to the Conversion Price or where more than one event which gives rise to an adjustment to the Conversion Price occurs within such a short period of time that, in the opinion of the Company, a modification to the operation of the adjustment provisions is required to give the intended result, such modification shall be made to the operation of the adjustment provisions as may be advised by an Independent Financial Adviser (acting as an expert) to be in its opinion appropriate to give the intended result; and

(b) such modification shall be made to the operation of the provisions of this paragraph 4(*b*) or paragraph 4*(l)* as may be advised by an Independent Financial Adviser (acting as an expert) to be in its opinion appropriate to ensure that (i) an adjustment to the Conversion Price or the economic effect thereof shall not be taken into account more than once and (ii) the economic effect of a Dividend shall not be taken into account more than once.

For the purpose of any calculation of the consideration receivable or price pursuant to sub-paragraphs (*b*)(iv), (*b*)(vi), (*b*)(vii) and (*b*)(viii), the following provisions shall apply:

(a) the aggregate consideration receivable or price for Ordinary Shares issued for cash shall be the amount of such cash;

(b) (x) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the conversion or exchange of any Securities shall be deemed to be the consideration or

price received or receivable for any such Securities and (y) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the exercise of rights of subscription attached to any Securities or upon the exercise of any options, warrants or rights shall be deemed to be that part (which may be the whole) of the consideration or price received or receivable for such Securities or, as the case may be, for such options, warrants or rights which are attributed by the Company to such rights of subscription or, as the case may be, such options, warrants or rights or, if no part of such consideration or price is so attributed, the Fair Market Value of such rights of subscription or, as the case may be, such options, warrants or rights as at the relevant Effective Date as referred to in sub-paragraph 4(*b*)(iv) or the date of the first public announcement of the terms of issue of such Securities or, as the case may be, such options, warrants or rights as referred to in sub-paragraphs 4(*b*)(vi), (*b*)(vii) and (*b*)(viii) plus, in the case of each of (x) and (y) above, the additional minimum consideration receivable or price (if any) upon the conversion or exchange of such Securities, or upon the exercise of such rights or subscription attached thereto or, as the case may be, upon exercise of such options, warrants or rights and (z) the consideration receivable or price per Ordinary Share upon the conversion or exchange of, or upon the exercise of such rights of subscription attached to, such Securities or, as the case may be, upon the exercise of such options, warrants or rights shall be the aggregate consideration or price referred to in (x) or (y) above (as the case may be) divided by the number of Ordinary Shares to be issued upon such conversion or exchange or exercise at the initial conversion, exchange or subscription price or rate;

(c) if the consideration or price determined pursuant to (a) or (b) above (or any component thereof) shall be expressed in a currency other than the Relevant Currency, it shall be converted into the Relevant Currency at the Prevailing Rate on the relevant Effective Date (in the case of (a) above and sub-paragraph 4(*b*)(iv) and (ix)) or the relevant date of the first public announcement of the terms of issue of such Securities or, as the case may be, such options, warrants or rights (as the case may be) (in the case of sub-paragraphs 4(*b*)(vi), (vii) and (viii)) (or, if a rate cannot be determined at such time, the rate prevailing at the close of business on the immediately preceding day on which such rate can be so determined);

(d) in determining the consideration or price pursuant to the above, no deduction shall be made for any commissions or fees (howsoever described) or any expenses paid or incurred for any underwriting, placing or management of the issue of the relevant Ordinary Shares or Securities or options, warrants or rights, or otherwise in connection therewith; and

(e) the consideration or price shall be determined as provided above on the basis of the consideration or price received, receivable, paid or payable regardless of whether all or part thereof is received, receivable, paid or payable by or to the Company or another entity on its behalf.

(c) Retroactive Adjustments

If the Conversion Date in relation to the conversion of any Series 1 Class B Share shall be after the record date in respect of any consolidation, redesignation or sub-division as is mentioned in sub-paragraph 4(*b*)(i) or paragraph *4(l)*, or after the record date or other due date for the establishment of entitlement for any such issue, distribution, grant or offer (as the case may be) as is mentioned in sub-paragraphs 4(*b*)(ii), (iii), (iv), (v) or (ix), or after the date of the first public announcement of the terms of any such issue or grant as is mentioned in sub-paragraphs 4(*b*)(vi) and (vii) or of the terms of any such modification as is mentioned in sub-paragraph 4(*b*)(viii), but before the relevant adjustment to the Conversion Price becomes effective under paragraph 4(*b*) or, as the case may be, the relevant adjustment to the Relevant Amount becomes effective under paragraph *4(l)* (such adjustment, a "**Retroactive Adjustment**"), then the Company shall (conditional upon the relevant adjustment becoming effective) procure that there shall be created, issued or transferred and delivered to the converting holder of Series 1 Class B Shares, in accordance with the instructions contained in the Conversion Notice, such additional number of Ordinary Shares (if any) (the "**Additional Ordinary Shares**") as, together with the Ordinary Shares issued or to be transferred and delivered on conversion of the relevant Series 1 Class B Share (together with any fraction of an Ordinary Share not so issued), is equal to the number of Ordinary Shares which would have been required to be issued or delivered on conversion of such Series 1 Class B Share as if the relevant adjustment to the Conversion Price or Relevant Amount (as the case may be) had been made and become effective immediately prior to the relevant Conversion Date.

(d) Decision of an Independent Financial Adviser

If any doubt shall arise as to whether an adjustment falls to be made to the Relevant Amount, Conversion Price or Winding-up Ratio or as to the appropriate adjustment to the Relevant Amount, Conversion Price or Winding-up Ratio, and following consultation between the Company and an Independent Financial Adviser, a written opinion of such Independent Financial Adviser in respect thereof shall be conclusive and binding on all parties, save in the case of manifest or proven error.

(e) Share or Option Schemes

No adjustment will be made to the Conversion Price where Ordinary Shares or other Securities (including rights, warrants and options) are issued, offered, exercised, allotted, appropriated, modified or granted to, or for the benefit of, employees or former employees (including Directors holding or formerly holding executive office or the personal service company of any such person) or their spouses or relatives, in each case, of the Company or any of its Subsidiaries or any associated company (including ABN AMRO Holding N.V. and its subsidiaries from time to time) or to a trustee or trustees to be held for the benefit of any such person, in any such case pursuant to any Employee Share Scheme.

(f) Rounding Down and Notice of Adjustment to the Conversion Price

On any adjustment, the resultant Conversion Price, if not an integral multiple of £0.01, shall be rounded down to the nearest whole multiple of £0.01. No adjustment shall be made to the Conversion Price where such adjustment

(rounded down if applicable) would be less than one per cent. of the Conversion Price then in effect. Any adjustment not required to be made and/or any amount by which the Conversion Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment, and such subsequent adjustment shall be made on the basis that the adjustment not required to be made had been made at the relevant time and/or, as the case may be, that the relevant rounding down had not been made.

Notice of any adjustments to the Conversion Price (and resulting Winding Up Ratio) shall be given by the Company to holders of Series 1 Class B Shares in accordance with paragraph 9 promptly after the determination thereof.

(g) Minimum Conversion Price

The Conversion Price shall not in any event be reduced to below the nominal value of the Ordinary Shares. The Company undertakes that it shall not take any action, and shall procure that no action is taken, that would result in an adjustment to the Conversion Price to below such nominal value or any minimum level permitted by law and regulation.

(h) Procedure for exercise of Conversion Rights

Conversion Rights may be exercised by a Series 1 Class B Shareholder during the Conversion Period by:

(i) in the case of Series 1 Class B Shares in certificated form, delivering the certificate representing the relevant Series 1 Class B Share to the specified office of the Registrar, during its usual business hours, accompanied by a duly completed and signed notice of conversion in the form (for the time being current) obtainable from the Registrar. Conversion Rights shall be exercised subject in each case to any applicable fiscal or other laws or regulations applicable; and

(ii) in the case of Series 1 Class B Shares in uncertificated form, sending to the Company or its agent at any time during the Conversion Period a properly authenticated dematerialised instruction (or other notification specified by the Company) in such form and subject to such terms and conditions as may (subject to the facilities and requirements of the relevant system concerned) from time to time be prescribed by the Board of Directors, who may require that the instruction be such as to divest the holder of the Series 1 Class B Shares concerned of the power to transfer such Series 1 Class B Shares to another person,

each such notice or instruction being hereinafter called a "**Conversion Notice**". A Conversion Notice once given may not be withdrawn without consent in writing of the Company.

If such delivery is made after the end of normal business hours or on a day which is not a business day in the place of the specified office of the Registrar, such delivery shall be deemed for all purposes hereof to have been made on the next following such business day.

Any determination as to whether any Conversion Notice has been duly completed and properly delivered shall be made by the Registrar and shall, save

in the case of manifest or proven error, be conclusive and binding on the Company, the Registrar and the relevant holder of Series 1 Class B Shares.

The conversion date in respect of a Series 1 Class B Share (the "**Conversion Date**") shall be the business day in London immediately following the date of the delivery of the certificate representing the relevant Series 1 Class B Share (unless in uncertificated form) and the Conversion Notice as provided in this paragraph 4(*h*).

A Series 1 Class B Shareholder exercising a Conversion Right must pay directly to the relevant authorities any taxes and capital, stamp, issue and registration and transfer taxes and duties arising on conversion (other than any taxes or capital, stamp, issue and registration and transfer taxes and duties payable in the United Kingdom in respect of the issue or transfer and delivery of any Ordinary Shares on such conversion (including any Additional Ordinary Shares), which shall be paid by the Company).

Such Series 1 Class B Shareholder must also pay all, if any, taxes imposed on it and arising by reference to any disposal or deemed disposal of a Series 1 Class B Share or interest therein in connection with the exercise of Conversion Rights by it).

The Company shall pay any expenses of obtaining a listing for any Ordinary Shares arising on the exercise of a Conversion Right on the Relevant Stock Exchange.

(i) Delivery of Ordinary Shares

The Ordinary Shares to be created, issued or transferred and delivered following the exercise of a Conversion Right will not be available for issue (i) to, or to a nominee or agent for, Euroclear Bank S.A./N.V. or Clearstream Banking, société anonyme or any other person providing a clearance service within the meaning of Section 96 of the Finance Act 1986 of the United Kingdom or (ii) to a person, or nominee or agent for a person, whose business is or includes issuing depositary receipts within the meaning of Section 93 of the Finance Act 1986 of the United Kingdom, in each case at any time prior to the "abolition day" as defined in Section 111(1) of the Finance Act 1990 of the United Kingdom.

Ordinary Shares to be created, issued or transferred and delivered following the exercise of a Conversion Right will be delivered in uncertificated form through CREST, unless at the relevant time the Ordinary Shares are not a participating security in CREST or the relevant holder elects to receive the Ordinary Shares in certificated registered form. Where Ordinary Shares are to be delivered through CREST, they will be delivered to the account specified by the relevant holder of Series 1 Class B Shares in the relevant Conversion Notice by not later than seven London business days following the relevant Conversion Date (or, in the case of any Additional Ordinary Shares not later than seven London business days following the relevant Reference Date). Where Ordinary Shares are to be delivered in certificated form, a certificate in respect thereof will be dispatched by mail free of charge (but uninsured and at the risk of the recipient) to the relevant holder of Series 1 Class B Shares or as it may direct in the relevant Conversion

Notice within 14 days following (i) the relevant Conversion Date or (ii) (in the case of Additional Ordinary Shares) the Reference Date.

(j) Ordinary Shares

Ordinary Shares created, issued or transferred and delivered upon conversion of the Series 1 Class B Shares will be fully paid and will in all respects rank *pari passu* with the fully paid Ordinary Shares in issue on the relevant Conversion Date or, in the case of Additional Ordinary Shares , on the relevant Reference Date, except in any such case for any right excluded by mandatory provisions of applicable law and except that such Ordinary Shares or, as the case may be, Additional Ordinary Shares will not rank for (or, as the case may be, the relevant holder shall not be entitled to receive) any rights, distributions or payments the record date or other due date for the establishment of entitlement for which falls prior to the relevant Conversion Date or relevant Reference Date. If Ordinary Shares are created, issued or transferred and delivered upon conversion of the Series 1 Class B Shares and the relevant Conversion Date or, in the case of Additional Ordinary Shares, the relevant Reference Date is a record date for the establishment of entitlement to any rights, distributions or payments under both the Series 1 Class B Shares and the Ordinary Shares, the holders of the Series 1 Class B Shares which are being converted will be entitled to such rights, distributions or payments as holders of Ordinary Shares but not as holders of Series 1 Class B Shares.

(k) Undertakings

Whilst any Conversion Right remains exercisable, the Company will, save with the consent in writing of the holders of three-fourths of the issued Series 1 Class B Shares or with the sanction of a special resolution passed at a separate General Meeting of the holders of the Series 1 Class B Shares (to which the provisions of the Articles, including Article 6, shall apply):

(i) not make any issue, grant or distribution or take or omit to take any other action if the effect thereof would be that, on the exercise of Conversion Rights, Ordinary Shares could not, under any applicable law then in effect, be legally issued as fully paid;

(ii) use all reasonable endeavours to ensure that the Ordinary Shares issued upon exercise of Conversion Rights will, as soon as is practicable, be admitted to listing and to trading on the Relevant Stock Exchange and will be listed, quoted or dealt in, as soon as is practicable, on any other stock exchange or securities market on which the Ordinary Shares may then be listed or quoted or dealt in;

(iii) for so long as any Series 1 Class B Share remains outstanding, use all reasonable endeavours to ensure that its issued and outstanding Ordinary Shares shall be admitted to listing on the Relevant Stock Exchange;

(iv) at all times keep available for issue, free from pre-emptive rights, sufficient Ordinary Shares to enable the exercise of Conversion Rights, and all other rights of subscription and exchange for, and conversion into, Ordinary Shares, to be satisfied in full at the current subscription, purchase or other acquisition prices or rates;

(v) in the event of a Newco Scheme, take (or shall procure that there is taken) all necessary action to ensure that immediately after completion of the Scheme of Arrangement, such amendments are made to the terms of the Series 1 Class B Shares as are necessary or desirable to enable the Series 1 Class B Shares to be converted or exchanged into ordinary shares or units or the equivalent in Newco *mutatis mutandis* in accordance with and subject to these provisions of the Articles, with such modification as an Independent Financial Adviser (acting as an expert) shall consider to be appropriate. The Company shall give notice of any such amendments in accordance with paragraph 9 and such amendments shall have effect from the date specified therefor in such notice and without the need for any further consent or approval from the holders of the Series 1 Class B Shares for such amendments;

(vi) if an offer is made to all (or as nearly as may be practicable all) Shareholders other than the offeror and/or any associates of the offeror (as defined in section 988 of the Companies Act) to acquire all or a majority of the issued ordinary share capital of the Company, or if a scheme (other than a Newco Scheme) is proposed with regard to such acquisition, give notice in writing of such offer or scheme to the holders of the Series 1 Class B Shares in accordance with paragraph 9 at the same time as any notice thereof is sent to its Shareholders (or as soon as reasonably practicable thereafter) that details concerning such offer or scheme may be obtained from the specified offices of the Registrar;

(vii) give notice in writing to the holders of the Series 1 Class B Shares in accordance with paragraph 9 if, an offer having been made to all (or as nearly as may be practicable all) Shareholders (or all (or as nearly as may be practicable all) Shareholders other than the offeror and/or any associate of the offeror (as defined in section 988 of the Companies Act)) to acquire all or a majority of the issued ordinary share capital of the Company or if any person proposes a scheme with regard to such acquisition and such offer or scheme having become or been declared unconditional in all respects, the right to cast more than 50 per cent. of the votes which may ordinarily be cast on a poll at a general meeting of the Company has or will become unconditionally vested in the offeror and/or such associate as aforesaid. Such notice shall specify all information relevant to holders of Series 1 Class B Shares concerning such offer or scheme;

(viii) other than in connection with a Newco Scheme, not issue or pay up any Securities, in either case by way of capitalisation of profits or reserves, other than:

(i) by the issue of fully paid Ordinary Shares or other Securities to Shareholders and other holders of shares in the capital of the Company which by their terms entitle the holders thereof to receive Ordinary Shares or other shares or Securities on a capitalisation of profits or reserves; or

(ii) by the issue of Ordinary Shares paid up in full out of profits or reserves (in accordance with applicable law) and issued wholly,

ignoring fractional entitlements, in lieu of the whole or part of a cash dividend; or

(iii) by the issue of fully paid equity share capital (other than Ordinary Shares) to the holders of equity share capital of the same class and other holders of shares in the capital of the Company which by their terms entitle the holders thereof to receive equity share capital (other than Ordinary Shares); or

(iv) by the issue of Ordinary Shares or any equity share capital to, or for the benefit of, any employee or former employee or director or former director of the Company or any of its Subsidiaries or any associated company (including ABN AMRO Holding N.V. and its subsidiaries from time to time) or to trustees or nominees to be held for the exclusive benefit of any such person, in any such case pursuant to any Employee Share Scheme; or

(v) in connection with the conversion of Relevant Shares as envisaged under paragraph 4(*a*),

unless, in any such case, the same constitutes a Dividend or gives rise (or would, but for the provisions of paragraph 4(*f*) relating to roundings and minimum adjustments or the carry forward of adjustments, give rise) to an adjustment to the Conversion Price;

(ix) not in any way modify the rights attaching to the Ordinary Shares with respect to voting, dividends or liquidation nor issue any other class of equity share capital carrying any rights which are more favourable than such rights but so that nothing in this paragraph 4(*k*)(ix) shall prevent:

(i) the issue of any equity share capital to employees or directors (or the spouse or relative of any such person) whether of the Company or any of the Company's Subsidiaries or associated companies (including ABN AMRO Holding N.V. and its subsidiaries from time to time) pursuant to any Employee Share Scheme; or

(ii) any consolidation, subdivision or redesignation of the Ordinary Shares or the conversion of any Ordinary Shares into stock or vice versa; or

(iii) any modification of such rights which is not, in the opinion of an Independent Financial Adviser (acting as an expert), materially prejudicial to the interests of the holders of Series 1 Class B Shares; or

(iv) any alteration to the Articles made in connection with the matters described in this paragraph 4 or which is supplemental or incidental to any of the foregoing (including any amendment made to enable or facilitate procedures relating to such matters and any amendment dealing with the rights and obligations of holders of Securities, including Ordinary Shares, dealt with under such procedures); or

(v) any issue of equity share capital where the issue of such equity share capital results or would, but for the provisions of paragraph

4(*f*) relating to roundings and minimum adjustments or the carry forward of adjustments or, where comprising Ordinary Shares, the fact that the consideration per Ordinary Share receivable therefor is at least 95 per cent. of the Current Market Price per Ordinary Share, otherwise result in an adjustment of the Conversion Price; or

(vi) the conversion of Ordinary Shares into, or the issue of any Ordinary Shares in, uncertificated form (or the conversion of Ordinary Shares in uncertificated form to certificated form) or the amendment of the Articles to enable title to securities (including Ordinary Shares) to be evidenced and transferred without a written instrument or any other consequential related alteration to the Articles made in connection with the matters described in this paragraph 4(*k*)(ix); or

(vii) any issue of equity share capital or modification of rights attaching to the Ordinary Shares where prior thereto the Company shall have instructed an Independent Financial Adviser (acting as an expert) to determine what (if any) adjustments should be made to the Conversion Price as being fair and reasonable to take account thereof and such Independent Financial Adviser shall have determined in good faith either that no adjustment is required or that an adjustment to the Conversion Price is required and, if so, the new Conversion Price as a result thereof and the basis upon which such adjustment is to be made and, in any such case, the date on which the adjustment shall take effect (and so that the adjustment shall be made and shall take effect accordingly); or

(viii) the issue of the Dividend Access Share or the issue of further Class B Shares pursuant to paragraph 13 or the issue of further Class B Shares to any existing holders of Class B Shares or the issue of further dividend access shares to holders of Class B Shares;

(x) procure that no Securities (whether issued by the Company or any of the Company's Subsidiaries or procured by the Company or any of the Company's Subsidiaries to be issued or issued by any other person pursuant to any arrangement with the Company or any of the Company's Subsidiaries) issued without rights to convert into, or exchange or subscribe for, Ordinary Shares shall subsequently be granted such rights exercisable at a consideration per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share at the close of business on the last dealing day preceding the date of the first public announcement of the proposed inclusion of such rights unless the same gives rise (or would, but for the provisions of paragraph 4(*f*) relating to roundings and minimum adjustments or the carry forward of adjustments, give rise) to an adjustment to the Conversion Price and that at no time shall there be in issue ordinary shares of differing nominal values;

(xi) not reduce the aggregate of its issued share capital, share premium account, capital redemption reserve, merger reserve, revaluation reserve or any other reserve including distributable reserves or any uncalled liability in respect thereof except:

(i) pursuant to the terms of issue of the relevant share capital; or

(ii) by means of a purchase or redemption of share capital of the Company (subject always to paragraph 6); or

(iii) as permitted by Section 610 of the Companies Act; or

(iv) where the reduction does not involve any distribution of assets; or

(v) where the reduction results in (or would, but for the provisions of paragraph 4(*f*) relating to roundings and minimum adjustments the carry forward of adjustments, result in) an adjustment to the Conversion Price or is otherwise taken into account for the purposes of determining whether such an adjustment should be made; or

(vi) solely in relation to a change in the currency in which the nominal value of the Ordinary Shares is expressed; or

(vii) pursuant to a Newco Scheme; or

(viii) as a result of the accounting treatment under applicable generally accepted accounting principles of any redemption or refinancing of debt instruments; or

(ix) the reduction is permitted by applicable law and the Company is advised by an Independent Financial Adviser, acting as an expert, that the interests of the holders of the Series 1 Class B Shares will not be materially prejudiced by such reduction; or

(x) pursuant to the issue, transfer or purchase of equity share capital for the purpose of an Employee Share Scheme.

(l) Adjustment of Relevant Amount on consolidation, redesignation or subdivision in relation to the Series 1 Class B Shares

Upon the happening of the event described below, the Relevant Amount shall be adjusted as follows:

If and whenever there shall be a consolidation, redesignation or subdivision in relation to the Series 1 Class B Shares, the Relevant Amount shall be adjusted by dividing the Relevant Amount in force immediately prior to such consolidation, redesignation or subdivision by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate number of Series 1 Class B Shares in issue immediately after, and as a result of, such consolidation, redesignation or subdivision, as the case may be; and

B is the aggregate number of the Series 1 Class B Shares in issue immediately before such consolidation, redesignation or subdivision, as the case may be.

Such adjustment shall become effective on the date the consolidation, redesignation or subdivision, as the case may be, takes effect.

5 Voting

Holders of the Series 1 Class B Shares will only be entitled to receive notice of and to attend any general meeting of shareholders and to speak to or vote upon any resolution proposed at such meeting if a resolution is proposed which either varies or abrogates any of the rights and restrictions attached to the Series 1 Class B Shares or proposes the winding up of the Company (and then in each such case only to speak and vote upon any such resolution).

If holders of the Series 1 Class B Shares are entitled to vote upon a resolution proposed at a general meeting of shareholders, on a show of hands every holder of Series 1 Class B Shares who is entitled to vote or any proxy or a corporate representative for that holder, in each case who is present in person, will have one vote. On a poll, each holder of Series 1 Class B Shares who is entitled to vote and who is present in person, by proxy or by corporate representative, will have two votes for each Series 1 Class B Share of which he or she is the holder. Other provisions in the Articles relating to voting procedures also apply to the Series 1 Class B Shares.

6 Purchase of own shares

For as long as any Series 1 Class B Shares remain in issue the Company may not purchase or otherwise acquire any of its Ordinary Shares or other Parity Securities (other than the Series 1 Class B Shares) or any depositary or other receipts or certificates representing Ordinary Shares or Parity Securities (other than the Series 1 Class B Shares) other than any such purchases or acquisitions which are made in connection with any Employee Share Scheme or which are made from HM Treasury or its nominees.

7 Form and Denomination

The Series 1 Class B Shares will, when issued, be fully paid and, as such, will not be subject to a call for any additional payment. For each Series 1 Class B Share issued, an amount equal to its nominal value of £0.01 will be credited to the Company's issued share capital account.

The Series 1 Class B Shares will be issued in registered form.

Title to Series 1 Class B Shares in certificated form will pass by transfer and registration on the register of members of the Company in accordance with the Articles. The Articles provide, amongst other matters, that transfers of the Series 1 Class B Shares in certificated form are to be effected by an instrument of transfer in any usual form or in any other form approved by the Board of Directors. Instruments of transfer of the Series

1 Class B Shares must be signed by or on behalf of the transferor or executed in some other legally valid way.

See "Registrar" below. Any registration of transfer will be effected without charge to the person requesting the registration, but the requesting person will be required to pay any related taxes, stamp duties or other governmental charges (except to the extent that the same are required to be paid by any other person, including the Company, pursuant to paragraph 4(*h*) above or otherwise pursuant to the terms of issue of the Series 1 Class B Shares).

8 Variation of Rights

The rights, preferences and privileges attached to Series 1 Class B Shares may be varied or abrogated in accordance with the Articles (including Article 6). In addition, the Company may make such changes to the terms of issue of the Series 1 Class B Shares as it, in its sole discretion, deems necessary in order to ensure that the Series 1 Class B Shares continue to count as core tier 1 capital for the purposes of regulatory requirements applicable to it, and such changes may be made without the consent of holders of the Series 1 Class B Shares. The Company will notify holders of the Series 1 Class B Shares in accordance with paragraph 9 if it makes any such changes.

Subject as provided in paragraph 13 and without prejudice to any requirement to make adjustments under paragraph 4(*b*), the rights attached to the Series 1 Class B Shares will not be deemed to be varied by the creation or issue of (a) Further Series 1 Class B Shares, any further Class B Shares, any other Parity Securities or any other share capital ranking equally with or junior to the Series 1 Class B Shares or (b) any preference shares, in each case whether carrying identical rights or different rights in any respect, including as to dividend, premium or entitlement on a return of capital, redemption or conversion and whether denominated in sterling or any other currency. Any further Class B Shares, any other Parity Securities or any other share capital ranking equal with or junior to the Series 1 Class B Shares may either carry identical rights in all respects with the Series 1 Class B Shares or carry different rights.

9 Notices

Notices given by the Company will be given by the Registrar on its behalf unless the Company decides otherwise. A notice may be given by the Company to any holder of Series 1 Class B Shares in certificated form by sending it by post to the holder's registered address. Service of the notice shall be deemed to be effected by properly addressing, prepaying and posting a letter by first class post containing the notice, and to have been effected on the day after the letter containing the same is posted. Where a holder's registered address is outside the United Kingdom, all notices shall be sent to him by air mail post.

A notice may be given by the Company to the joint holders of Series 1 Class B Shares by giving the notice to the joint holder first named in the register.

A notice may be given by the Company to the extent permitted by the Companies Act and the UK Listing Authority by electronic communication, if so requested or authorised by the holder, the holder having notified the Company of an e-mail address to which the Company may send electronic communications, and having agreed to receive notices and other documents from the Company by electronic communication. If a holder

notifies the Company of an e-mail address, the Company may send the holder the notice or other document by publishing the notice or other document on a website and notifying the holder by e-mail that the notice or other document has been published on the website. The Company must also specify the address of the website on which it has been published, the place on the website where the notice may be accessed and how it may be accessed, and where the notice in question is a notice of a meeting, the notice must continue to be published on that website throughout the period beginning with the giving of that notification and ending with the conclusion of the meeting, save that if the notice is published for part only of that period then failure to publish the notice throughout that period shall not invalidate the proceedings of the meeting where such failure is wholly attributable to circumstances which it would not be reasonable to have expected the Company to prevent or avoid.

Notices to holders of the Series 1 Class B Shares in uncertificated form, including notices for general meetings of holders of Series 1 Class B Shares, will be published in accordance with the operating procedures for the time being of CREST and the Regulations.

In addition, if and for so long as the Series 1 Class B Shares are listed and admitted to trading on any stock exchange, notices shall be given in accordance with any requirements of such exchange.

10 Additional Amounts

If at any time the Company is required by a tax authority to deduct or withhold taxes from payments made by the Company with respect to the Series 1 Class B Shares, the Company will not pay additional amounts. As a result, the net amount received from the Company by each holder of a Series 1 Class B Share, after the deduction or withholding, will be less than the amount the holder would have received in the absence of the deduction or withholding

11 Governing Law

The creation and issuance of the Series 1 Class B Shares and the rights attached to them shall be governed by and construed in accordance with the laws of Scotland.

12 Registrar

Computershare Investor Services PLC located at The Pavilions, Bridgwater Road, Bristol BS99 6ZZ will maintain the register and will act as Registrar.

The Company reserves the right at any time to appoint an additional or successor registrar. Notice of any change of registrar will be given to holders of the Series 1 Class B Shares.

13 Further Issues

Subject to the adjustment provisions in paragraph 4, the Company may, at any time and from time to time, and without any consent or sanction of the holders of the Series 1 Class B Shares, create or issue further Class B Shares (whether Series 1 or otherwise) or other share capital ranking equal with or junior to the Series 1 Class B Shares, save that for so long as HM Treasury is the holder of any Series 1 Class B Share the

Company may not create or issue further Class B Shares or other share capital ranking equally with the Series 1 Class B Shares (other than Ordinary Shares, the Dividend Access Share and Further Series 1 Class B Shares issued to HM Treasury or to holders of Series 1 Class B Shares in accordance with their terms) without the prior written consent of HM Treasury.

14 Definitions

"**Additional Ordinary Shares**" has the meaning provided in paragraph 4(*c*);

"**Articles**" means the articles of association of the Company;

"**Board of Directors**" means the Board of Directors of the Company or a duly authorised committee of such Board of Directors;

"**Business Day**" means a day on which banks are open for business in London;

"**business day**" means, in relation to any place, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets are open for business in that place;

"**Capital Distribution**" has the meaning provided in paragraph 4(*b*)(iii);

"**Capitalisation Issue Shares**" has the meaning provided in paragraph 4(*a*);

"**Class B Share Capital**" means that part of the Company's share capital represented by Class B Shares;

"**Class B Shares**" means Class B Shares (of whatever series) in the capital of the Company;

"**Companies Act**" means the Companies Act 2006 (as amended from time to time);

"**Company**" means The Royal Bank of Scotland Group plc;

"**Conversion Date**" has the meaning provided in paragraph 4(*h*);

"**Conversion Notice**" has the meaning provided in paragraph 4(*h*);

"**Conversion Period**" has the meaning provided in paragraph 4(*a*);

"**Conversion Price**" means £0.50 per Ordinary Share, subject to adjustment from time to time as provided in paragraph 4(*b*);

"**Conversion Right**" has the meaning provided in paragraph 4(*a*);

"**CREST**" means the system for the paperless settlement of trades and holding of uncertificated securities operated by Euroclear UK & Ireland Limited, the operator of CREST (in accordance with the Regulations) (or any successor), or any other relevant system under the Regulations;

"**Current Market Price**" means, in respect of an Ordinary Share at a particular date, the average of the daily Volume Weighted Average Price of an Ordinary Share on each of the five consecutive dealing days ending on the dealing day immediately preceding such date; provided that if at any time during the said five-dealing-day period the Volume Weighted Average

Price shall have been based on a price ex-Dividend (or ex- any other entitlement) and during some other part of that period the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum- any other entitlement, including for this purpose any Ordinary Share Bonus Issue), then:

(a) if the Ordinary Shares to be created, issued or transferred and delivered do not rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the Ordinary Shares shall have been based on a price cum-Dividend (or cum- any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the date of the first public announcement of such Dividend or entitlement, in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit; or

(b) if the Ordinary Shares to be created, issued or transferred and delivered do rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the Ordinary Shares shall have been based on a price ex-Dividend (or ex- any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof increased by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the date of the first public announcement of such Dividend or entitlement, in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit,

and provided further that if on each of the said five dealing days the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum- any other entitlement) in respect of a Dividend (or other entitlement) which has been declared or announced but the Ordinary Shares to be created, issued or transferred and delivered do not rank for that Dividend (or other entitlement) the Volume Weighted Average Price on each of such dates shall for the purposes of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the date of the first public announcement of such Dividend or entitlement, in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit,

and provided further that, if the Volume Weighted Average Price of an Ordinary Share is not available on one or more of the said five dealing days (disregarding for this purpose the proviso to the definition of Volume Weighted Average Price), then the average of such Volume Weighted Average Prices which are available in that five-dealing-day period shall be used (subject to a minimum of two such prices) and if only one, or no, such Volume Weighted Average Price is available in the relevant period the Current Market Price shall be determined in good faith by an Independent Financial Adviser (acting as an expert);

"**dealing day**" means a day on which the Relevant Stock Exchange or relevant market is open for business and on which Ordinary Shares, Securities or Spin-Off Securities (as the case may be) may be dealt in (other than a day on which the Relevant Stock Exchange or relevant market is scheduled to or does close prior to its regular weekday closing time);

"**Directors**" means the executive and non-executive directors of the Company who make up its board of directors;

"**Dividend**" means, in relation to the Ordinary Shares, any dividend or distribution to Shareholders (including a Spin-Off) whether of cash, assets or other property, and however described and whether payable out of share premium account, profits, retained earnings or any other capital or revenue reserve or account, and including a distribution or payment to holders upon or in connection with a reduction of capital (and for these purposes a distribution of assets includes without limitation an issue of Ordinary Shares or other Securities credited as fully or partly paid up by way of capitalisation of profits or reserves), provided that:

(a) where a Dividend in cash is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the issue or delivery of Ordinary Shares or other property or assets, or where a capitalisation of profits or reserves is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the payment of cash, then the Dividend in question shall be treated as a Dividend in cash of the greater of (i) such cash amount and (ii) the Current Market Price of such Ordinary Shares or, as the case may be, the Fair Market Value of such other property or assets (as at the date of the first public announcement of such Dividend or capitalisation (as the case may be) or, if later, the date on which the number of Ordinary Shares (or amount of property or assets, as the case may be) which may be created. issued or transferred and delivered is determined);

(b) any Ordinary Share Bonus Issue shall be disregarded; and

(c) any issue of Ordinary Shares falling within paragraph 4(*b*)(ii) shall be disregarded;

"**Dividend Access Share**" means the Series 1 Dividend Access Share of 1 pence in the capital of the Company;

"**Effective Date**" has, for the purpose of any paragraph in which such expression is used, the meaning given in the relevant paragraph;

"**Effective Date relating to such Dividend or entitlement**" means (for the purposes of the definition of "Current Market Price") the first date on which the Ordinary Shares are traded ex- the relevant Dividend or entitlement on the Relevant Stock Exchange;

"**Employee Share Scheme**" means a scheme for encouraging or facilitating the holding of shares in or debentures of the Company or any Subsidiary by or for the benefit of: (a) the bona fide employees or former employees of the Company or any other member of the Group (including ABN AMRO Holding N.V. and its subsidiaries from time to time) or (b) the spouses, civil partners, surviving spouses, surviving civil partners, or minor children or step-children of such employees or former employees;

"**equity share capital**" means, in relation to any entity, its issued share capital excluding any part of that capital which, neither as respects dividends nor as respects capital, carries any right to participate beyond a specific amount in a distribution;

"**Fair Market Value**" means, with respect to any property on any date, the fair market value of that property as determined in good faith by an Independent Financial Adviser (acting as an expert) provided that (i) the Fair Market Value of a Dividend in cash shall be the amount of such cash; (ii) the Fair Market Value of any other cash amount shall be

the amount of such cash; (iii) where Securities, Spin-Off Securities, options, warrants or other rights are publicly traded in a market of adequate liquidity (as determined by an Independent Financial Adviser, acting as an expert), the Fair Market Value (a) of such Securities or Spin-Off Securities shall equal the arithmetic mean of the daily Volume Weighted Average Prices of such Securities or Spin-Off Securities and (b) of such options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights, in the case of both (a) and (b) during the period of five dealing days on the relevant market commencing on such date (or, if later, the first such dealing day such Securities, Spin-Off Securities, options, warrants or other rights are publicly traded) or such shorter period as such Securities, Spin-Off Securities, options, warrants or other rights are publicly traded; (iv) where Securities, Spin-Off Securities, options, warrants or other rights are not publicly traded (as aforesaid) or if the fair market value of such publicly traded securities cannot be determined as provided in (iii) after a period of 15 calendar days following the relevant date, the Fair Market Value of such Securities, Spin-Off Securities, options, warrants or other rights shall be determined in good faith by an Independent Financial Adviser (acting as an expert), on the basis of a commonly accepted market valuation method and taking account of such factors as it considers appropriate, including the market price per Ordinary Share, the dividend yield of an Ordinary Share, the volatility of such market price, prevailing interest rates and the terms of such Securities, Spin-Off Securities, options, warrants or other rights, including as to the expiry date and exercise price (if any) thereof. Such amounts shall, in the case of (i) above, be translated into the Relevant Currency (if declared or paid or payable in a currency other than the Relevant Currency) at the rate of exchange used to determine the amount payable to Shareholders who were paid or are to be paid or are entitled to be paid the Dividend in cash in the Relevant Currency; and in any other case, shall be translated into the Relevant Currency (if expressed in a currency other than the Relevant Currency) at the Prevailing Rate on that date. In addition, in the case of (i) and (ii) above, the Fair Market Value shall be determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit;

"**FSA**" means the Financial Services Authority or such other governmental authority in the United Kingdom (or if the Company becomes domiciled in a jurisdiction other than the United Kingdom, in such other jurisdiction) having supervisory authority over the Group in respect of any banking business carried on;

"**Further Series 1 Class B Shares**" means any further Series 1 Class B Shares issued pursuant to paragraph 13 and consolidated and forming a single series with the then Series 1 Class B Shares in issue;

"**Group**" means the Company and its subsidiary undertakings;

"**HM Treasury**" means The Commissioners of Her Majesty's Treasury of, as at the Issue Date, 1 Horse Guards Road, London SW1A 2HQ;

"**in certificated form**" means a share or other security which is not in uncertificated form;

"**Independent Financial Adviser**" means an independent financial institution of international repute appointed at its own expense by the Company and, to the extent that HM Treasury or its nominee is a holder of more than 50% of the outstanding Series 1 Class B Shares at the relevant time, approved in writing by HM Treasury (such approval not to be unreasonably withheld or delayed);

"**Issue Date**" means [•] 2009 and, as applicable, any other date on which Further Series 1 Class B Shares may be issued;

"**London Stock Exchange**" means the London Stock Exchange plc;

"**Newco Scheme**" means a scheme of arrangement or analogous proceeding ("**Scheme of Arrangement**") which effects the interposition of a limited liability company ("**Newco**") between the Shareholders of the Company immediately prior to the Scheme of Arrangement (the "**Existing Shareholders**") and the Company; provided that (i) only ordinary shares of Newco or depositary or other receipts or certificates representing ordinary shares of Newco are issued to Existing Shareholders; (ii) immediately after completion of the Scheme of Arrangement the only shareholders of Newco or, as the case may be, the only holders of depositary or other receipts or certificates representing ordinary shares of Newco are Existing Shareholders; (iii) immediately after completion of the Scheme of Arrangement, Newco is (or one or more wholly-owned Subsidiaries of Newco are) the only shareholder of the Company; (iv) all Subsidiaries of the Company immediately prior to the Scheme of Arrangement (other than Newco, if Newco is then a Subsidiary of the Company) are Subsidiaries of the Company (or of Newco) immediately after the Scheme of Arrangement; and (v) immediately after completion of the Scheme of Arrangement the Company (or Newco) holds, directly or indirectly, the same percentage of the ordinary share capital and equity share capital of those Subsidiaries as was held by the Company immediately prior to the Scheme of Arrangement;

"**Non-Cash Dividend**" has the meaning provided in paragraph 4(*b*)(iii);

"**Non-Voting Deferred Share Series B**" has the meaning provided in paragraph 4(*a*);

"**Ordinary Share Bonus Issue**" means, in relation to the Ordinary Shares, an issue of Ordinary Shares credited as fully paid to the relevant Shareholders by way of capitalisation of profits or reserves and where such Ordinary Shares are, or are expressed to be, issued in lieu of a dividend (whether a cash dividend equivalent or other amount is announced or would otherwise be payable to Shareholders, whether at their election or otherwise);

"**Ordinary Shares**" means the ordinary shares of the Company of 25 pence nominal each as at the Issue Date;

"**Parity Securities**" means (i) the Ordinary Shares of the Company and (ii) any other securities of the Company or any other member of the Group ranking or expressed to rank *pari passu* with the Ordinary Shares and/or the Series 1 Class B Shares on a return of capital or distribution of assets on a winding-up, either issued by the Company or, where issued by another member of the Group, where the terms of the securities benefit from a guarantee or support agreement entered into by the Company which ranks or is expressed to rank *pari passu* with the Ordinary Shares and/or the Series 1 Class B Shares on a return of capital or distribution of assets on a winding-up;

"**Prevailing Rate**" means, in respect of any currencies on any day, the spot rate of exchange between the relevant currencies prevailing as at or about 12 noon (London time) on that date as appearing on or derived from the Relevant Page or, if such a rate cannot be determined at such time, the rate prevailing as at or about 12 noon (London time) on the immediately preceding day on which such rate can be so determined;

"**record date**" means, in respect of any entitlement to receive a dividend or other distribution declared, paid or made, or any rights granted, the record date or other due date for the establishment of the relevant entitlement;"**Reference Date**" means, in

relation to a Retroactive Adjustment, the date as of which the relevant Retroactive Adjustment takes effect or, if that is not a dealing day, the next following dealing day;

"**Registrar**" is Computershare Investor Services PLC;

"**Regulations**" means the Uncertificated Securities Regulations 2001 (SI 2001 No. 2001/3755);

"**Relevant Amount**" means £0.50 per Series 1 Class B Share, subject to adjustment from time to time as provided in paragraph 4(l);

"**Relevant Currency**" means sterling or, if at the relevant time or for the purposes of the relevant calculation or determination, the London Stock Exchange is not the Relevant Stock Exchange, the currency in which the Ordinary Shares are quoted or dealt in on the Relevant Stock Exchange at such time;

"**Relevant Page**" means the relevant page on Bloomberg or such other information service provider selected by the Company that displays the relevant information;

"**Relevant Shares**" means such Series 1 Class B Shares as are due to be converted on any Conversion Date and excludes any Capitalisation Issue Shares;

"**Relevant Stock Exchange**" means the London Stock Exchange or, if at the relevant time the Ordinary Shares are not at that time listed and admitted to trading on the London Stock Exchange, the principal stock exchange or securities market on which the Ordinary Shares are then listed, admitted to trading or quoted or dealt in;

"**Retroactive Adjustment**" has the meaning provided in paragraph 4(c);

"**Scheme of Arrangement**" has the meaning provided in the definition of "Newco Scheme";

"**Securities**" means any securities including, without limitation, Ordinary Shares, or options, warrants or other rights to subscribe for or purchase or acquire Ordinary Shares;

"**Series 1 Class B Dividend**" has the meaning provided in paragraph 2.1;

"**Series 1 Class B Shares**" means the 51,000,000,000 Series 1 Class B Shares of the Company with a nominal value of £0.01 each, together with any Further Series 1 Class B Shares issued by the Company from time to time;

"**Series 1 Class B Dividend Trigger Event**" has the meaning given to such term in the terms of issue of the Dividend Access Share;

"**Shareholders**" means the person(s) in whose name(s) Ordinary Shares are for the time being registered in the register of Ordinary Share ownership maintained by or on behalf of the Company;

"**Specified Date**" has, for the purpose of any paragraph in which such expression is used, the meaning given in the relevant paragraph;

"**Spin-Off**" means:

(a) a distribution of Spin-Off Securities by the Company to Shareholders as a class;

or

(b) any issue, transfer or delivery of any property or assets (including cash or shares or securities of or in or issued or allotted by any entity) by any entity (other than

the Company) to Shareholders as a class, or in the case of or in connection with a Newco Scheme, Existing Shareholders as a class (but excluding the issue and allotment of ordinary shares by Newco to Existing Shareholders as a class), pursuant in each case to any arrangements with the Company or any of its Subsidiaries;

"**Spin-Off Securities**" means equity share capital of an entity other than the Company or options, warrants or other rights to subscribe for or purchase equity share capital of an entity other than the Company;

"**sterling**" means the lawful currency of the United Kingdom from time to time;

"**Subsidiary**" has the meaning provided in Section 1159 of the Companies Act;

"**subsidiary undertaking**" has the meaning provided in Section 1162 of the Companies Act;

"**UK Listing Authority**" means the Financial Services Authority in its capacity as competent authority for the purposes of the Financial Services and Markets Act 2000;

"**uncertificated form**" or "**in uncertificated form**" means, when used in relation to shares, shares recorded on the relevant register as being held in uncertificated form in CREST and title to which, by virtue of the Regulations, may be transferred by means of CREST;

"**Volume Weighted Average Price**" means, in respect of an Ordinary Share, Security or, as the case may be, a Spin-Off Security on any dealing day, the order book volume-weighted average price of an Ordinary Share, Security or, as the case may be, a Spin-Off Security published by or derived (in the case of an Ordinary Share) from Bloomberg page RBS LN EQUITY VAP or (in the case of a Security (other than Ordinary Shares) or Spin-Off Security) from the principal stock exchange or securities market on which such Securities or Spin-Off Securities are then listed or quoted or dealt in, if any, or, in any such case, such other source as shall be determined to be appropriate by an Independent Financial Adviser (acting as an expert) on such dealing day, provided that, if on any such dealing day such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of an Ordinary Share, Security or a Spin-Off Security, as the case may be, in respect of such dealing day shall be the Volume Weighted Average Price, determined in good faith by an Independent Financial Adviser (acting as an expert); and

"**Winding Up Ratio**" has the meaning provided in paragraph 3.

References to any issue or offer or grant to Shareholders "**as a class**" or "**by way of rights**" shall be taken to be references to an issue or offer or grant to all or substantially all Shareholders, other than Shareholders to whom, by reason of the laws of any territory or requirements of any recognised regulatory body or any other stock exchange or securities market in any territory or in connection with fractional entitlements, it is determined not to make such issue or offer or grant.

In making any calculation or determination of Current Market Price or Volume Weighted Average Price, such adjustments (if any) shall be made as an Independent Financial Adviser considers appropriate to reflect any consolidation or sub-division of the Ordinary Shares or any issue of Ordinary Shares by way of capitalisation of profits or reserves, or any like or similar event.

For the purposes of paragraphs 4(*a*), (*b*), (*c*), (*i*), (*j*) and (*k*) only, (a) references to the "**issue**" of Ordinary Shares or Ordinary Shares being "**issued**" shall include the transfer and/or delivery of Ordinary Shares, whether newly issued and allotted or previously existing or held by or on behalf of the Company or any of its Subsidiaries, and (b) Ordinary Shares held by or on behalf of the Company or any of its respective Subsidiaries (and which, in the case of paragraph 4(*b*)(iv) and (vi), do not rank for the relevant right or other entitlement) shall not be considered as or treated as "**in issue**" or "**issued**" or entitled to receive the relevant Dividend, right or other entitlement.

References to listing on the London Stock Exchange (or like or similar references) shall be construed as admission to the Official List of the UKLA and admission to trading on the EEA Regulated Market of the London Stock Exchange (being a market as defined by Article 4.1(14) of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments).

SCHEDULE 7

DIVIDEND ACCESS SHARE TERMS

Terms of Issue of the RBSG Series 1 Dividend Access Share

1 General

The Series 1 Dividend Access Share will have a nominal value of £0.01 and will be fully paid up at issue. The Series 1 Dividend Access Share will be issued in registered form and will be held in certificated form. Temporary documents of title in relation to the Series 1 Dividend Access Share in certificated form will not be issued pending despatch by post of a definitive certificate. Capitalised terms used and not otherwise defined herein shall have the respective meanings ascribed thereto in paragraph 16 below.

2 Series 1 Dividend Access Share Dividends

2.1 Subject to the discretions, limitations and qualifications set out herein, non-cumulative dividends on the Series 1 Dividend Access Share will be payable from the date the Company issues the Series 1 Dividend Access Share in respect of the period up to and including the Series 1 Class B Dividend Stop Date (if any). The Company will pay dividends when, as and if declared by the Board of Directors. Subject to the discretions, limitations and qualifications set out herein, the Series 1 Dividend Access Share shall entitle the holder thereof to receive out of the distributable profits of the Company a non-cumulative dividend (the "**Dividend Access Share Dividend**"), in priority to the payment of any dividend to the holders of any class of Ordinary Share or Class B Shares and *pari passu* in such regard with the holders of any other Dividend Access Shares then in issue.

The Board of Directors shall, by 31 October in each financial year of the Company, decide whether or not to pay an interim dividend on the Ordinary Shares or make an interim Ordinary Share Bonus Issue in that financial year. If it is decided that an interim dividend on the Ordinary Shares or an interim Ordinary Share Bonus Issue is to be paid or made in any financial year, the corresponding semi-annual (hereinafter referred to as "**first semi-annual**") Dividend Access Share Dividend or Bonus Issue on the Series 1 Dividend Access Share in the same financial year will be paid or made at the time set out below. The record date for any first semi-annual Dividend Access Share Dividend or Bonus Issue on the Series 1 Dividend Access Share shall be the same as the record date for any interim dividend on the Ordinary Shares or interim Ordinary Share Bonus Issue in the relevant financial year or otherwise shall be three Business Days before 31 October in each year. If paid or made, the first semi-annual Dividend Access Share Dividend or Bonus Issue on the Series 1 Dividend Access Share in a financial year will be paid or made on the same date that the corresponding interim dividend on the Ordinary Shares is paid or interim Ordinary Share Bonus Issue is made. If it is decided that no such interim dividend on the Ordinary Shares or interim Ordinary Share Bonus Issue will be paid or made in a financial year, the first semi-annual Dividend Access Share Dividend or Bonus Issue on the Series 1 Dividend Access Share in such financial year will, if to be paid or made, be so paid or made on 31 October in such financial year (commencing in 2010). Any first semi-annual Dividend Access Share Dividend will only

be paid if (to the extent legally required) profits are available for distribution and are permitted by law to be distributed.

The Board of Directors shall, by 31 May in each financial year of the Company, decide whether or not to recommend a dividend on the Ordinary Shares or make an Ordinary Share Bonus Issue which is expressed to be a final dividend for the immediately preceding financial year. If it is decided that such a dividend on the Ordinary Shares or Ordinary Share Bonus Issue is to be recommended and is subsequently approved by Shareholders, the corresponding semi-annual (hereinafter referred to as "**second semi-annual**") Dividend Access Share Dividend or Bonus Issue on the Series 1 Dividend Access Share expressed to be for the corresponding period will be paid at the time set out below. The record date for any second semi-annual Dividend Access Share Dividend or Bonus Issue on the Series 1 Dividend Access Share shall be the same as the record date for any final dividend on the Ordinary Shares or final Ordinary Share Bonus Issue for the relevant financial year or otherwise shall be three Business Days before 31 May in each year. If paid or made, the second semi-annual Dividend Access Share Dividend or Bonus Issue on the Series 1 Dividend Access Share in a financial year will be paid or made on the same date that the corresponding final dividend on the Ordinary Shares is paid or final Ordinary Share Bonus Issue is made. If it is decided that no such final dividend on the Ordinary Shares or Ordinary Share Bonus Issue will be paid or made in any year (the "**current year**") for the immediately preceding financial year, any second semi-annual Dividend Access Share Dividend or Bonus Issue on the Series 1 Dividend Access Share expressed to be for the corresponding period will, if to be paid or made, be so paid or made on 31 May in the current year (commencing in 2010). Any second semi-annual Dividend Access Share Dividend will only be paid if (to the extent legally required) profits are available for distribution and are permitted by law to be distributed.

If paid or made, the first semi-annual Dividend Access Share Dividend on the Series 1 Dividend Access Share shall be equivalent to (A) the greater of:

(1) 7 per cent. of the Reference Amount multiplied by the actual number of days in the period from (but excluding) the immediately preceding Relevant Date or, if none, the Issue Date to (and including) the current Relevant Date or, if there has occurred prior to such current Relevant Date a Series 1 Class B Dividend Stop Date in respect of any Series 1 Class B Shares, then in respect of those Series 1 Class B Shares, to (and including) such earlier Series 1 Class B Dividend Stop Date, divided by 365 (or 366 in a leap year) and

(2) if a cash dividend or cash dividends on the Ordinary Shares or Ordinary Share Bonus Issue(s) is/are paid or made in the period from (but excluding) the immediately preceding Relevant Date or, if none, the Issue Date to (and including) the current Relevant Date or, if there has occurred prior to such current Relevant Date a Series 1 Class B Dividend Stop Date in respect of any Series 1 Class B Shares, then in respect of those Series 1 Class B Shares, to (and including) such earlier Series 1 Class B Dividend Stop Date, 250 per cent. (as adjusted from time to time as provided below, the "**Participation Rate**") of the aggregate Fair Market Value of such cash dividend(s) or Ordinary Share Bonus Issue(s) per Ordinary Share multiplied by the then Reference Series 1 Class B Shares Number. Where a dividend in cash is announced which may at the election of a Shareholder or Shareholders be satisfied by the issue or delivery of Ordinary Shares in an Ordinary Share Bonus Issue, or where an Ordinary Share Bonus Issue is announced which may at the election of a Shareholder or Shareholders be satisfied by the payment of cash, then the Fair Market Value of such dividend or

Ordinary Share Bonus Issue shall be deemed to be the amount of the dividend in cash or of the payment in cash (as the case may be),

less (B) the Fair Market Value of the aggregate amount of any dividend or distribution paid or made on the Series 1 Class B Shares and/or on any Ordinary Shares issued on conversion of the Series 1 Class B Shares (regardless of who holds such Series 1 Class B Shares or Ordinary Shares at the relevant time) in the period from (but excluding) the immediately preceding Relevant Date or, if none, the Issue Date to (and including) the current Relevant Date (or, if there has occurred prior to such current Relevant Date a Series 1 Class B Dividend Stop Date in respect of any Series 1 Class B Shares, then in respect of those Series 1 Class B Shares to (and including) such earlier Series 1 Class B Dividend Stop Date), provided that the first semi-annual Dividend Access Share Dividend shall never be less than zero.

If paid or made, the second semi-annual Dividend Access Share Dividend on the Series 1 Dividend Access Share shall be equivalent to (A) the greater of:

(1) 7 per cent. of the Reference Amount multiplied by the actual number of days in the period from (but excluding) the Relevant Date falling on (or nearest to) one year prior to the current Relevant Date or, if none, the Issue Date to (and including) the current Relevant Date or, if there has occurred prior to such current Relevant Date a Series 1 Class B Dividend Stop Date in respect of any Series 1 Class B Shares, then in respect of those Series 1 Class B Shares, to (and including) such earlier Series 1 Class B Dividend Stop Date, divided by 365 (or 366 in a leap year) and

(2) if a cash dividend or cash dividends on the Ordinary Shares or Ordinary Share Bonus Issue(s) is/are paid or made in the period from (but excluding) the Relevant Date falling on (or nearest to) one year prior to the current Relevant Date or, if none, the Issue Date to (and including) the current Relevant Date or, if there has occurred prior to such current Relevant Date a Series 1 Class B Dividend Stop Date in respect of any Series 1 Class B Shares, then in respect of those Series 1 Class B Shares, to (and including) such earlier Series 1 Class B Dividend Stop Date, the Participation Rate of the aggregate Fair Market Value of such cash dividend(s) or Ordinary Share Bonus Issue(s) per Ordinary Share multiplied by the then Reference Series 1 Class B Shares Number. Where a dividend in cash is announced which may at the election of a Shareholder or Shareholders be satisfied by the issue or delivery of Ordinary Shares in an Ordinary Share Bonus Issue, or where an Ordinary Share Bonus Issue is announced which may at the election of a Shareholder or Shareholders be satisfied by the payment of cash, then the Fair Market Value of such dividend or Ordinary Share Bonus Issue shall be deemed to be the amount of the dividend in cash or of the payment in cash (as the case may be),

less (B) the Fair Market Value of the aggregate amount of any dividend or distribution paid or made on the Series 1 Class B Shares and/or on any Ordinary Shares issued on conversion of the Series 1 Class B Shares (regardless of who holds such Series 1 Class B Shares or Ordinary Shares at the relevant time) in the period from (but excluding) the Relevant Date falling on (or nearest to) one year prior to the current Relevant Date or, if none, the Issue Date to (to including) the current Relevant Date (or, if there has occurred prior to such current Relevant Date a Series 1 Class B Dividend Stop Date in respect of any Series 1 Class B Shares, then in respect of those Series 1 Class B Shares to (and including) such earlier Series 1 Class B Dividend Stop Date)and less the Fair Market Value of the immediately preceding first semi-annual Dividend Access Share

Dividend or Bonus Issue paid or made (if any), provided that the second semi-annual Dividend Access Share Dividend shall never be less than zero.

If the Participation Rate is adjusted during the course of a financial year, the amount of the semi-annual Dividend Access Share Dividend in such financial year, if determined by reference to the Participation Rate, shall itself be adjusted in such manner as the Independent Financial Adviser (acting as an expert) considers appropriate to take account of the date(s) on which the adjustment(s) to the Participation Rate become effective. A written opinion of the Independent Financial Adviser in respect thereof shall be conclusive and binding on all parties, save in the case of manifest error.

The initial Participation Rate is 250 per cent. Upon the happening of any of the events in respect of which the Series 1 Class B Share Conversion Price or the Series 1 Class B Share Relevant Amount shall be adjusted as provided in:

(i) sub-paragraphs 4(*b*)(i) to (x) (inclusive) of the Series 1 Class B Share Terms (subject to the provisions of the last paragraph of paragraph 4(*a*) of the Series 1 Class B Share Terms), the Participation Rate shall also be adjusted at the same time as follows:

$$NPR = OPR \times \frac{OCP}{NCP}$$

and

(ii) paragraph 4(*l*) of the Series 1 Class B Share Terms (subject to paragraph 4(*a*) of the Series 1 Class B Share Terms), the Participation Rate shall also be adjusted at the same time as follows:

$$NPR = OPR \times \frac{NRA}{ORA}$$

where:

NPR means the new Participation Rate, following such adjustment;

OPR means the old Participation Rate, immediately prior to such adjustment;

NCP means the new Series 1 Class B Share Conversion Price following such adjustment;

OCP means the old Series 1 Class B Share Conversion Price, immediately prior to such adjustment;

NRA means the new Series 1 Class B Share Relevant Amount following such adjustment; and

ORA means the old Series 1 Class B Share Relevant Amount, immediately prior to such adjustment

2.2 The Company shall, upon determining any dividend pursuant to this paragraph 2, cause the amount thereof to be notified to the holders of Series 1 Dividend Access Share in accordance with paragraph 11.

2.3 In the event of a change to the accounting reference date of the Company, the references in this paragraph 2 to (i) 31 May shall be deemed to be changed to such date as falls five months after the new accounting reference date and (ii) 31 October shall be deemed to be changed to such date as falls ten months after the new accounting reference date.

In the event of a change in accounting reference date from 31 December, the Company shall make such other changes to the dividend payment arrangements described above as, following consultation with an Independent Financial Adviser (acting as an expert), it determines are fair and reasonable to take account of any initial stub period(s) when the new accounting reference date is introduced.

In the event of a change in the frequency of dividend payments on the Ordinary Shares such that they are not paid semi-annually consistent with the payment of Dividend Access Share Dividends on the Series 1 Dividend Access Share, the Company shall make such changes to the Dividend Access Share Dividend payment arrangements described in this paragraph 2 as, following consultation with the Independent Financial Adviser (acting as an expert), it determines are fair and reasonable to take account of such changed frequency.

2.4 Non-cumulative dividends on the Series 1 Dividend Access Share are payable in respect of the period up to and including the Series 1 Class B Dividend Stop Date (if any). After the Series 1 Class B Dividend Stop Date (if any) the right of the holder of this Dividend Access Share to Dividend Access Share Dividends in respect of any Series 1 Class B Shares in issue during each of the 30 consecutive dealing days during which the Series 1 Class B Dividend Trigger Event occurs shall cease, but this is without prejudice to the right to Dividend Access Share Dividends in respect of any Series 1 Class B Shares not in issue on each such day.

2.5 If any doubt shall arise as to the appropriate amount of any Dividend Access Share Dividend, and following consultation between the Company and an Independent Financial Adviser, a written opinion of such Independent Financial Adviser in respect thereof shall be conclusive and binding on all parties, save in the case of manifest or proven error.

3 Payment of Dividend Access Share Dividends Discretionary

If, in the opinion of the Board of Directors, the distributable profits of the Company are sufficient to cover the payment, in full, of the Dividend Access Share Dividend on the relevant Dividend Access Share Dividend payment date and also the payment in full of all other dividends and other amounts stated to be payable on such date on any Parity Securities in issue (other than the Ordinary Shares and the Series 1 Class B Shares), the Board of Directors may:

(a) pay in full the Dividend Access Share Dividend on the relevant Dividend Access Share Dividend payment date; or

(b) in their sole and absolute discretion resolve at least 10 Business Days prior to the relevant Dividend Access Share Dividend payment date that no Dividend Access Share Dividend shall be paid or that a Dividend Access Share Dividend shall be paid only in part.

The Board of Directors shall not be bound to give their reasons for exercising their discretion under this sub-paragraph. The Board of Directors may exercise their discretion in respect of a dividend notwithstanding the previous setting aside of a sum to provide for payment of that dividend to the extent that, in the opinion of the Board of Directors (i) there are insufficient distributable profits to cover the payment, in full, of the Dividend Access Share Dividend on the relevant Dividend Access Share payment date and also the payment in full of all other dividends and other amounts stated to be payable on such date on any Parity Securities in issue (other than the Ordinary Shares and the Series 1 Class B Shares) or (ii) the payment of the Dividend Access Share Dividend would breach or cause a breach of the capital adequacy requirements applicable to the Company.

If, at least 10 Business Days prior to a Dividend Access Share Dividend payment date, the Board of Directors considers that the distributable profits of the Company are insufficient to cover the payment in full of the Dividend Access Share Dividend and also the payment in full of all other dividends or other amounts stated to be payable on such Dividend Access Share Dividend payment date on any Parity Securities (other than the Ordinary Shares and the Series 1 Class B Shares), then the Board of Directors may pay a reduced Dividend Access Share Dividend. This will be paid in proportion to the dividends and other amounts which would have been due on the Series 1 Dividend Access Share and any other shares and other instruments of the Company (other than the Ordinary Shares and the Series 1 Class B Shares) on such Dividend Access Share Dividend payment date which are expressed to rank equally with the Series 1 Dividend Access Share as regards participation in profits if there had been sufficient profit.

The Board of Directors may in its discretion decide that the Dividend Access Share Dividend in any financial year will not be paid at all or will be paid only in part even when distributable profits are available for distribution. If the Board of Directors decides not to pay the Dividend Access Share Dividend in respect of a period or determines that it shall be paid only in part, then the right of the holder of the Series 1 Dividend Access Share to receive the relevant Dividend Access Share Dividend in respect of that period will be lost either entirely or as to the part not paid, as applicable, and the Company will have no obligation in respect of the amount of Dividend Access Share Dividend not paid either to pay the relevant Dividend Access Share Dividend in respect of that period or to pay interest thereon, whether or not Dividend Access Share Dividends are paid in respect of any future financial period.

As soon as practicable after resolving that no Dividend Access Share Dividend shall be paid or that it shall be paid only in part, the Board of Directors shall give notice thereof to the holder of the Series 1 Dividend Access Share in accordance with paragraph 11.

4 Payment of Dividend Access Share Dividends

Subject to these terms of issue, the Company will, if to be paid, pay Dividend Access Share Dividends out of its distributable profits in sterling. Dividend Access Share Dividends may be paid by the Company by crediting any account which the holder of the Series 1 Dividend Access Share, or in the case of joint holders, the holder whose name stands first in the register in respect of the Series 1 Dividend Access Share, has with the Company, whether in the sole name of such holder or the joint names of such holder and another person or person, unless the Company has received not less than one

month's notice in writing from such holder or joint holders directing that payment be made in another manner permitted by the Articles.

Any such Dividend Access Share Dividend may be paid by any bank or other funds transfer system or, if agreed by the Company, such other means and to or through such person, in each case as the holder or joint holders may in writing direct.

If payment in respect of the Series 1 Dividend Access Share into any such bank account is to be made on a Dividend Access Share Dividend payment date which is not a Business Day, then payment of such amount will be made on the next succeeding Business Day, without any interest or payment in respect of such delay.

Payments in respect of amounts payable by way of Dividend Access Share Dividend will be subject in all cases to any applicable fiscal or other laws and other regulations.

If the Board of Directors decides to pay a Dividend Access Share Dividend and either (i) no dividend has been paid on the Ordinary Shares and/or distribution made thereon in respect of the corresponding period or (ii) a dividend has been paid and/or a distribution has been made on the Ordinary Shares otherwise than in cash in respect of the corresponding period, the Board of Directors may in its discretion determine that such Dividend Access Share Dividend shall be paid in whole or in part by the Company issuing Series 1 Class B Shares, credited as fully paid, to the holder of the Series 1 Dividend Access Share. The number of such Series 1 Class B Shares to be issued to the holder shall be such number of Series 1 Class B Shares as shall be certified by the Independent Financial Adviser (acting as an expert) to be as nearly as possible equal to (but not greater than) the cash amount (disregarding any tax credit) of such semi-annual Dividend Access Share Dividend or part thereof otherwise payable to such holder of the Series 1 Dividend Access Share, based on the Fair Market Value of a Series 1 Class B Share at the time of such determination. A written opinion of the Independent Financial Adviser in respect thereof shall be conclusive and binding on all parties, save in the case of manifest error.

The basis of allotment in accordance with the immediately preceding paragraph shall be such that the holder of the Series 1 Dividend Access Share may not receive a fraction of a Series 1 Class B Share (for this purpose calculating entitlements on the basis of a holder's entire holding of Series 1 Class B Shares). The Board of Directors may make such provisions as they think fit for any fractional entitlements, including provisions whereby, in whole or in part, fractional entitlements are disregarded or the benefit thereof accrues to the Company and/or under which fractional entitlements are accrued and/or retained.

The Series 1 Class B Shares so allotted shall rank *pari passu* in all respects with the fully paid Series 1 Class B Shares then in issue save only as regards participation in any dividend on the Series 1 Class B Shares payable by reference to a record date falling on or prior to the date of issue of the Series 1 Class B Shares so allotted.

The new Series 1 Class B Shares issued in respect of the whole (or some part) of the relevant dividend declared in respect of the Series 1 Dividend Access Share shall be in certificated form unless the Company and a holder agree otherwise.

The Board of Directors may undertake and do such acts and things as they may consider necessary or expedient for the purpose of giving effect to the provisions of this paragraph 4.

5 Restrictions on Dividends and Redemption

If any Dividend Access Share Dividend is not declared and paid in full in cash or otherwise, the Company:

(i) may not, and shall procure that no member of the Group shall, declare or pay dividends or other distributions upon any Parity Securities (whether in cash or otherwise, and whether payable on the same date as the relevant Dividend Access Share Dividend or subsequently) or make any Ordinary Share Bonus Issue (whether to be made on the same date as the relevant Dividend Access Share Dividend or subsequently), and the Company may not, and shall procure that no member of the Group shall, set aside any sum for the payment of these dividends or distributions; or

(ii) may not, and shall procure that no member of the Group shall, redeem, purchase or otherwise acquire (whether on the same date as the relevant Dividend Access Share Dividend is payable or subsequently) for any consideration any of its Parity Securities or any depository or other receipts or certificates representing Parity Securities (other than any such purchases or acquisitions which are made in connection with any Employee Share Scheme), and (save as aforesaid) the Company may not, and shall procure that no member of the Group shall, set aside any sum or establish any sinking fund (whether on the same date as the relevant Dividend Access Share Dividend is payable or subsequently) for the redemption, purchase or other acquisition of Parity Securities or any depository or other receipts or certificates representing Parity Securities,

in each case until such time as Dividend Access Share Dividends are no longer payable or payment of Dividend Access Share Dividends in cash or otherwise has resumed in full, as the case may be.

6 Rights upon Liquidation

On a winding-up or liquidation, voluntary or otherwise, the holder of the Series 1 Dividend Access Share will rank in the application of the assets of the Company available to shareholders: (1) equally in all respects with holders of Ordinary Shares and Series 1 Class B Shares and any other class of shares or securities of the Company in issue or which may be issued by the Company which rank or are expressed to rank equally with the Series 1 Dividend Access Share, the Ordinary Shares or the Series 1 Class B Shares on a winding-up or liquidation and (2) junior to all other shareholders and all creditors of the Company.

In such event the holder of the Series 1 Dividend Access Share will be deemed to hold one (as adjusted from time to time as provided below, the "**Winding Up Ratio**") Ordinary Share and will be entitled to receive out of the surplus assets of the Company remaining after payment of all prior-ranking claims, a sum equal to that payable to a holder of one (as adjusted) Ordinary Share in such event.

The initial Winding Up Ratio is one. Upon each adjustment of the Series 1 Class B Share Winding Up Ratio in accordance with the Series 1 Class B Share Terms (or, if there are no Series 1 Class B Shares outstanding at the relevant time, upon any event that would have led to such an adjustment if there had been Series 1 Class B Shares

outstanding at such time), the Winding Up Ratio shall also be adjusted at the same time and to the same extent.

7 Voting

The holder of the Series 1 Dividend Access Share will only be entitled to receive notice of and to attend any general meeting of shareholders and to speak to or vote upon any resolution proposed at such meeting if a resolution is proposed which either varies or abrogates any of the rights and restrictions attached to the Series 1 Dividend Access Share or proposes the winding up of the Company (and then in each such case only to speak and vote upon any such resolution).

If the holder of the Series 1 Dividend Access Share is entitled to vote upon a resolution proposed at a general meeting of shareholders, on a show of hands the holder of the Series 1 Dividend Access Share or any proxy or a corporate representative for the holder, in each case who is present in person, will have one vote. On a poll, the holder of the Series 1 Dividend Access Share who is entitled to vote and who is present in person, by proxy or by corporate representative, will have one vote.

Other provisions in the Articles relating to voting procedures also apply to the Series 1 Dividend Access Share.

8 Purchase of own shares

For as long as the Dividend Access Share remains in issue and the Reference Amount is greater than zero, the Company may not purchase or otherwise acquire any of its Ordinary Shares or other Parity Securities (other than the Series 1 Class B Shares) or any depositary or other receipts or certificates representing Ordinary Shares or Parity Securities (other than the Series 1 Class B Shares) other than any such purchases or acquisitions which are made in connection with any Employee Share Scheme or which are made from HM Treasury or its nominees.

9 Form and Denomination

The Series 1 Dividend Access Share will, when issued, be fully paid and, as such, will not be subject to a call for any additional payment. An amount equal to the nominal value of £0.01 of the Series 1 Dividend Access Share will be credited to the Company's issued share capital account.

The Series 1 Dividend Access Share will be issued in registered form to HM Treasury or its nominee. The Series 1 Dividend Access Share shall not be transferable.

Title to the Series 1 Dividend Access Share will be evidenced by registration on the register of members of the Company in accordance with the Articles.

See "Registrar" below.

10 Variation of Rights

The rights, preferences and privileges attached to the Series 1 Dividend Access Share may be varied or abrogated in accordance with the Articles (including Article 6). In addition, the Company may make such changes to the terms of issue of the Series 1 Dividend Access Share as it, in its sole discretion, deems necessary in order to ensure that the Series 1

Dividend Access Share continues to count as core tier 1 capital for the purposes of regulatory requirements applicable to it, and such changes may be made without the consent of the holder of the Series 1 Dividend Access Share. The Company will notify the holder of the Series 1 Dividend Access Share in accordance with paragraph 11 if it makes any such changes.

Subject as provided in paragraph 15, the rights attached to the Series 1 Dividend Access Share will not be deemed to be varied by the creation or issue of (a) any further Dividend Access Shares or any other Parity Securities or any other share capital ranking equally with or junior to the Series 1 Dividend Access Share or (b) any preference shares, in each case whether carrying identical rights or different rights in any respect, including as to dividend, premium or entitlement on a return of capital, redemption or conversion and whether denominated in sterling or any other currency. Any further Dividend Access Shares, any other Parity Securities or any other share capital ranking equal with or junior to the Dividend Access Share may either carry identical rights in all respects with the Series 1 Dividend Access Share or carry different rights.

11 Notices

Notices given by the Company will be given by the Registrar on its behalf unless the Company decides otherwise.

A notice may be given by the Company to the holder of the Series 1 Dividend Access Share in certificated form by sending it by post to the holder's registered address. Service of the notice shall be deemed to be effected by properly addressing, prepaying and posting a letter by first class post containing the notice, and to have been effected on the day after the letter containing the same is posted. Where the holder's registered address is outside the United Kingdom, all notices shall be sent to him by air mail post.

A notice may be given by the Company to the joint holders of the Series 1 Dividend Access Share by giving the notice to the joint holder first named in the register. A notice may be given by the Company to the extent permitted by the Companies Act by electronic communication, if so requested or authorised by the holder, the holder having notified the Company of an e-mail address to which the Company may send electronic communications, and having agreed to receive notices and other documents from the Company by electronic communication. If the holder notifies the Company of an e-mail address, the Company may send the holder the notice or other document by publishing the notice or other document on a website and notifying the holder by e-mail that the notice or other document has been published on the website. The Company must also specify the address of the website on which it has been published, the place on the website where the notice may be accessed and how it may be accessed, and where the notice in question is a notice of a meeting, the notice must continue to be published on that website throughout the period beginning with the giving of that notification and ending with the conclusion of the meeting, save that if the notice is published for part only of that period then failure to publish the notice throughout that period shall not invalidate the proceedings of the meeting where such failure is wholly attributable to circumstances which it would not be reasonable to have expected the Company to prevent or avoid.

12 Additional Amounts

If at any time the Company is required by a tax authority to deduct or withhold taxes from payments made by the Company with respect to the Series 1 Dividend Access Share, the Company will not pay additional amounts. As a result, the net amount received from the Company by the holder of the Series 1 Dividend Access Share, after the deduction or withholding, will be less than the amount the holder would have received in the absence of the deduction or withholding.

13 Governing Law

The creation and issuance of the Series 1 Dividend Access Share and the rights attached to it shall be governed by and construed in accordance with the laws of Scotland.

14 Registrar

Computershare Investor Services PLC located at The Pavilions, Bridgwater Road, Bristol BS99 6ZZ will maintain the register and will act as Registrar.

The Company reserves the right at any time to appoint an additional or successor registrar. Notice of any change of registrar will be given to the holder of the Series 1 Dividend Access Share.

15 Further Issues

The Company may, at any time and from time to time, and with the consent of HM Treasury, create or issue further Dividend Access Shares.

16 Definitions

"**Articles**" means the articles of association of the Company;

"**Board of Directors**" means the Board of Directors of the Company or a duly authorised committee of such Board of Directors;

"**Bonus Issue**" means, in relation to the Series 1 Dividend Access Share, an issue of Series 1 Class B Shares to the holder of the Series 1 Dividend Access Share by way of capitalisation of profits or reserves;

"**Business Day**" means a day on which banks are open for business in London;

"**Class B Shares**" means Class B Shares (of whatever series) in the capital of the Company;

"**Companies Act**" means the Companies Act 2006 (as amended from time to time);

"**Company**" means The Royal Bank of Scotland Group plc;

"**current year**" has the meaning provided in paragraph 2.1;

"**dealing day**" means a day on which the Relevant Stock Exchange or relevant market is open for business and on which Ordinary Shares, Securities or Spin-Off Securities (as the case may be) may be dealt in (other than a day on which the Relevant Stock

Exchange or relevant market is scheduled to or does close prior to its regular weekday closing time);

"**Directors**" means the executive and non-executive directors of the Company who make up its board of directors;

"**Dividend**" shall have the meaning given in paragraph 14 of the Series 1 Class B Share Terms;

"**Dividend Access Share Dividend**" has the meaning provided in paragraph 2.1;

"**Dividend Access Shares**" means Dividend Access Shares (of whatever series) in the capital of the Company;

"**Employee Share Scheme**" means a scheme for encouraging or facilitating the holding of shares in or debentures of the Company or any Subsidiary by or for the benefit of: (a) the bona fide employees or former employees of the Company or any other member of the Group (including ABN AMRO Holding N.V. and its subsidiaries from time to time) or (b) the spouses, civil partners, surviving spouses, surviving civil partners, or minor children or step-children of such employees or former employees;

"**Fair Market Value**" means, with respect to any property on any date, the fair market value of that property as determined in good faith by an Independent Financial Adviser (acting as an expert) provided that (i) the Fair Market Value of a dividend in cash shall be the amount of such cash; (ii) the Fair Market Value of any other cash amount shall be the amount of such cash; (iii) where Securities, Spin-Off Securities, options, warrants or other rights are publicly traded in a market of adequate liquidity (as determined by an Independent Financial Adviser, acting as an expert), the Fair Market Value (a) of such Securities or Spin-Off Securities shall equal the arithmetic mean of the daily Volume Weighted Average Prices of such Securities or Spin-Off Securities and (b) of such options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights, in the case of both (a) and (b) during the period of five dealing days on the relevant market commencing on such date (or, if later, the first such dealing day such Securities, Spin-Off Securities, options, warrants or other rights are publicly traded) or such shorter period as such Securities, Spin-Off Securities, options, warrants or other rights are publicly traded; (iv) where Securities, Spin-Off Securities, options, warrants or other rights are not publicly traded (as aforesaid) or if the fair market value of such publicly traded securities cannot be determined as provided in (iii) after a period of 15 calendar days following the relevant date, the Fair Market Value of such Securities, Spin-Off Securities, options, warrants or other rights shall be determined in good faith by an Independent Financial Adviser (acting as an expert), on the basis of a commonly accepted market valuation method and taking account of such factors as it considers appropriate, including the market price per Ordinary Share, the dividend yield of an Ordinary Share, the volatility of such market price, prevailing interest rates and the terms of such Securities, Spin-Off Securities, options, warrants or other rights, including as to the expiry date and exercise price (if any) thereof. Such amounts shall, in the case of (i) above, be translated into the Relevant Currency (if declared or paid or payable in a currency other than the Relevant Currency) at the rate of exchange used to determine the amount payable to Shareholders who were paid or are to be paid or are entitled to be paid the dividend in cash in the Relevant Currency; and in any other case, shall be translated into the Relevant Currency (if expressed in a currency other than the Relevant Currency) at the Prevailing Rate on that date. In addition, in the case of (i) and (ii) above, the Fair Market Value shall be determined on a gross basis and

disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit;

"**first semi-annual**" has the meaning provided in paragraph 2.1;

"**FSA**" means the Financial Services Authority or such other governmental authority in the United Kingdom (or if the Company becomes domiciled in a jurisdiction other than the United Kingdom, in such other jurisdiction) having supervisory authority over the Group in respect of any banking business carried on;

"**Further Series 1 Class B Shares**" means any further Series 1 Class B Shares issued from time to time and consolidated and forming a single series with the then Series 1 Class B Shares in issue;

"**Group**" means the Company and its subsidiary undertakings;

"**HM Treasury**" means The Commissioners of Her Majesty's Treasury of, as at the Issue Date, 1 Horse Guards Road, London SW1A 2HQ;

"**in certificated form**" means a share or other security which is not in uncertificated form;

"**Independent Financial Adviser**" means an independent financial institution of international repute appointed at its own expense by the Company and approved in writing by HM Treasury (such approval not to be unreasonably withheld or delayed);

"**Issue Date**" means [•] 2009;

"**London Stock Exchange**" means the London Stock Exchange plc;

"**Ordinary Share Bonus Issue**" means, in relation to the Ordinary Shares, an issue of Ordinary Shares credited as fully paid to the relevant Shareholders by way of capitalisation of profits or reserves and where such Ordinary Shares are, or are expressed to be, issued in lieu of a dividend (whether a cash dividend equivalent or other amount is announced or would otherwise be payable to Shareholders, whether at their election or otherwise);

"**Ordinary Shares**" means the ordinary shares of the Company of 25 pence nominal each as at the Issue Date;

"**Parity Securities**" means (i) the Ordinary Shares and the Series 1 Class B Shares of the Company and (ii) any other securities of the Company or any other member of the Group ranking or expressed to rank *pari passu* with the Ordinary Shares and/or the Series 1 Class B Shares and/or the Series 1 Dividend Access Share on a return of capital or distribution of assets on a winding-up, either issued by the Company or, where issued by another member of the Group, where the terms of the securities benefit from a guarantee or support agreement entered into by the Company which ranks or is expressed to rank *pari passu* with the Ordinary Shares and/or the Series 1 Class B Shares and/or the Series 1 Dividend Access Share on a return of capital or distribution of assets on a winding-up;

"**Parity Value**" means, in respect of any dealing day, the sterling amount calculated as follows:

PV = N x VWAP

where:

PV	=	the Parity Value
N	=	the number of Ordinary Shares determined by dividing £0.50 by the Series 1 Class B Share Conversion Price in effect on such dealing day rounded down, if necessary, to the nearest whole number of Ordinary Shares
WAP	=	the Volume Weighted Average Price of an Ordinary Share on such dealing day, provided that if on any such dealing day the Ordinary Shares shall have been quoted cum-Dividend or cum-any other entitlement (including, for the avoidance of doubt, any Ordinary Share Bonus Issue), the Volume Weighted Average Price of an Ordinary Share on such dealing day shall be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement (including, for the avoidance of doubt, any Ordinary Share Bonus Issue) per Ordinary Share as at the date of first public announcement of such Dividend or entitlement (or, if that is not a dealing day, the immediately preceding dealing day);

"**Participation Rate**" has the meaning provided in paragraph 2.1;

"**Prevailing Rate**" means, in respect of any currencies on any day, the spot rate of exchange between the relevant currencies prevailing as at or about 12 noon (London time) on that date as appearing on or derived from the Relevant Page or, if such a rate cannot be determined at such time, the rate prevailing as at or about 12 noon (London time) on the immediately preceding day on which such rate can be so determined;

"**record date**" means, in respect of any entitlement to receive a dividend or other distribution declared, paid or made, or any rights granted, the record date or other due date for the establishment of the relevant entitlement;

"**Reference Amount**" means £25,500,000,000 plus the aggregate Series 1 Class B Share Relevant Amount of any Further Series 1 Class B Shares issued by the Company to HM Treasury after the Issue Date and before the record date for the relevant Dividend Access Share Dividend, less the aggregate Series 1 Class B Relevant Amount of any Series 1 Class B Shares which were in issue during the 30 consecutive dealing days during which a Series 1 Class B Dividend Trigger Event occurred;

"**Reference Series 1 Class B Shares Number**" means the Reference Amount divided by the Series 1 Class B Share Relevant Amount;

"**Relevant Currency**" means sterling or, if at the relevant time or for the purposes of the relevant calculation or determination, the London Stock Exchange is not the Relevant Stock Exchange, the currency in which the Ordinary Shares are quoted or dealt in on the Relevant Stock Exchange at such time;

"**Relevant Date**" means, in respect of any semi-annual Dividend Access Share Dividend or Bonus Issue, the date on which the Company pays or makes the same or, subject to paragraph 2.3, if the same is not paid or made, means 31 October of the relevant year in the case of a first semi-annual Dividend Access Share Dividend or Bonus Issue, and 31 May of the relevant year in the case of a second semi-annual Dividend Access Share Dividend or Bonus Issue;

"**Relevant Page**" means the relevant page on Bloomberg or such other information service provider selected by the Company that displays the relevant information;

"**Relevant Stock Exchange**" means the London Stock Exchange or, if at the relevant time the Ordinary Shares are not at that time listed and admitted to trading on the London Stock Exchange, the principal stock exchange or securities market on which the Ordinary Shares are then listed, admitted to trading or quoted or dealt in;

"**second semi-annual**" has the meaning provided in paragraph 2.1;

"**Securities**" means any securities including, without limitation, Ordinary Shares, or options, warrants or other rights to subscribe for or purchase or acquire Ordinary Shares;

"**Series 1 Class B Share Conversion Price**" means the Conversion Price as defined in paragraph 4(a) of the Series 1 Class B Share Terms;

"**Series 1 Class B Dividend Stop Date**" means the date falling 20 days after the Series 1 Class B Dividend Trigger Event;

"**Series 1 Class B Dividend Trigger Event**" means in relation to Series 1 Class B Shares in issue at the relevant time, the Parity Value for 20 or more dealing days in any period of 30 consecutive dealing days equals or exceeds £0.65 and, for the avoidance of doubt, there can be more than one such event based on the time of issue of the relevant Series 1 Class B Shares;

"**Series 1 Class B Share Relevant Amount**" means £0.50 per Series 1 Class B Share, subject to adjustment as provided in paragraph 4(*l*) of the Series 1 Class B Share Terms;

"**Series 1 Class B Shares**" means the 51,000,000,000 Series 1 Class B Shares of £0.01 each in the capital of the Company issued on the Issue Date, together with any Further Series 1 Class B Shares (as such term is defined in the Series 1 Class B Share Terms) issued by the Company from time to time;

"**Series 1 Class B Share Terms**" means the terms of the Series 1 Class B Shares approved by the Board of Directors on [•] 2009;

"**Series 1 Class B Share Winding Up Ratio**" means the Winding Up Ratio as defined in paragraph 3 of the Series 1 Class B Share Terms;

"**Series 1 Dividend Access Share**" means the Series 1 Dividend Access Share of the Company with a nominal value of £0.01 issued by the Company on the Issue Date;

"**Shareholders**" means the person(s) in whose name(s) Ordinary Shares are for the time being registered in the register of Ordinary Share ownership maintained by or on behalf of the Company;

"**Specified Date**" has, for the purpose of any paragraph in which such expression is used, the meaning given in the relevant paragraph;

"**Spin-Off Securities**" means equity share capital of an entity other than the Company or options, warrants or other rights to subscribe for or purchase equity share capital of an entity other than the Company;

"**sterling**" means the lawful currency of the United Kingdom from time to time;

"**Subsidiary**" has the meaning provided in Section 1159 of the Companies Act 2006;

"**subsidiary undertaking**" has the meaning provided in Section 1162 of the Companies Act 2006;

"**Volume Weighted Average Price**" means, in respect of an Ordinary Share, Security or, as the case may be, a Spin-Off Security on any dealing day, the order book volume-weighted average price of an Ordinary Share, Security or, as the case may be, a Spin-Off Security published by or derived (in the case of an Ordinary Share) from Bloomberg page RBS LN EQUITY VAP or (in the case of a Security (other than Ordinary Shares) or Spin-Off Security) from the principal stock exchange or securities market on which such Securities or Spin-Off Securities are then listed or quoted or dealt in, if any, or, in any such case, such other source as shall be determined to be appropriate by an Independent Financial Adviser (acting as an expert) on such dealing day, provided that, if on any such dealing day such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of an Ordinary Share, Security or a Spin-Off Security, as the case may be, in respect of such dealing day shall be the Volume Weighted Average Price, determined in good faith by an Independent Financial Adviser (acting as an expert); and

"**Winding Up Ratio**" has the meaning provided in paragraph 6.

References to any issue or offer or grant to Shareholders "**as a class**" or "**by way of rights**" shall be taken to be references to an issue or offer or grant to all or substantially all Shareholders, other than Shareholders to whom, by reason of the laws of any territory or requirements of any recognised regulatory body or any other stock exchange or securities market in any territory or in connection with fractional entitlements, it is determined not to make such issue or offer or grant.

In making any calculation or determination of Volume Weighted Average Price, such adjustments (if any) shall be made as an Independent Financial Adviser considers appropriate to reflect any consolidation or sub-division of the Ordinary Shares or any issue of Ordinary Shares by way of capitalisation of profits or reserves, or any like or similar event.

SCHEDULE 8

TERMINATION EVENT

A "**Termination Event**" will occur if:

1. an administrator, bank administrator, liquidator, receiver, administrative receiver, compulsory manager or other similar officer is appointed in respect of the Company or any Material Subsidiary or any material part of their assets, provided always that the appointment of an administrator, liquidator, bank administrator, receiver, administrative receiver, compulsory manager or other similar officer in respect of any other Group Company shall not cause a Termination Event to occur;

2. any order is made by a competent court or a resolution is passed for the winding up or dissolution of the Company or any Material Subsidiary;

3. an administration order is made in relation to the Company or any Material Subsidiary;

4. the Company or any Material Subsidiary enters into a composition, compromise, assignment, assignation or arrangement (including a company voluntary arrangement or a scheme of arrangement) with any class of its financial creditors or makes a general assignment or assignation for the benefit of its creditors or takes any other action intended to prevent the enforcement of creditors' rights unless the prior written consent of HM Treasury has been obtained to that composition, compromise, assignment, assignation or arrangement,

or, in the case of paragraphs 1, 2, 3 or 4 above, any analogous procedure or step is taken in any jurisdiction;

5. the Company or any Material Subsidiary admits in writing that it is insolvent or unable to pay its debts as they fall due; or

6. the Company or any Material Subsidiary stops payment of its obligations generally or ceases to carry on its business or substantially all thereof, except that a solvent winding up or stopping of payment or cessation of business for the purpose of a reconstruction, union, transfer, merger or amalgamation of the Company or any Material Subsidiary shall not constitute a Termination Event as long as the Company or any Material Subsidiary, as the case may be, is not at the time of such stopping of payment or cessation of business unable to pay its debts within the meaning of section 123(1) or 123(2) of the Insolvency Act 1986 and does not become so as a result of stopping or payment of cessation of business.

In this Schedule 8, references to the Company and any Material Subsidiary shall be deemed to include a reference to any holding company of any such companies from time to time.

SCHEDULE 9

FORM OF PAYMENT PROPOSAL NOTICE

[Note: Notice to be served on HM Treasury by the Company in accordance with clause 14.11 (Notices) of the Agreement]

[Note: Insert date]

Dear Sirs,

Acquisition and Contingent Capital Agreement – Payment Proposal Notice

1. We refer to the "Acquisition and Contingent Capital Agreement" entered into by The Commissioners of Her Majesty's Treasury and The Royal Bank of Scotland Group PLC on [•] November 2009 (the "**Agreement**"). Any word or expression defined in the Agreement shall have the same meaning below in this notice.

2. We refer to the Annual Premium payable on [ ]. [*Note: Insert Payment Date*]. We propose that:

   (a) £[ ] of such Annual Premium will be paid in cash;

   (b) £[ ] of such Annual Premium will be paid in cash and HM Treasury will apply the same amount in acquiring further B Shares; and

   (c) £[ ] of such Annual Premium will be paid by foregoing tax relief, and for this purpose we propose that the relevant Tax Asset(s) is/are as follows:

Tax Asset Company:	[*Note: Insert the name of the company in which the Tax Asset is claimed to have arisen*] (the "**Tax Asset Company**")
Taxpayer reference number:	[*Note: Insert the UK taxpayer reference number of the Tax Asset Company*]
Amount of Tax Asset:	[*Note: Insert the claimed amount of the Tax Asset*]
Nature of Tax Asset:	[*Note: Specify the nature of the claimed Tax Asset. For example, trading losses*]
Accounting Period:	[*Note: Specify the most recent Accounting Period of the Tax Asset Company in which the Tax Asset is claimed to be available to the Tax Asset Company*]

[*Note: If more than one Tax Asset is proposed to be used for this purpose, insert the above information for each relevant Tax Asset. For the avoidance of doubt, it is not necessary for all of the specified Tax Assets to arise in the same company.*]

[*Note: None of the amounts referred to in paragraph 2(a), (b) or (c) may be negative, and the aggregate of such amounts must be equal to the aggregate amount of such Annual Premium.*]

Yours faithfully,

/s/
Name
Title

[*Note: To be validly executed by the Company*]

SCHEDULE 10

NON-VOTING DEFERRED SHARE TERMS

1. Notwithstanding any other provision of the Articles, a Non-Voting Deferred Share Series B:

(A) does not entitle its holder to receive any dividend or distribution declared, made or paid or any return of capital (save as provided in Article 4G(1)(b) and does not entitle its holder to any further or other right of participation in the assets of the Company;

(B) entitles its holder to participate on a return of assets on a winding up of the company, such entitlement to be limited to the repayment of the amount paid up or credit as paid up on such share and shall be paid only after the holders of any and all Ordinary Shares and B Shares then in issue shall have received (a) payment in respect of such amount as is paid up or credited as paid up on those Ordinary Shares and/or B Shares held by them at that time plus (b) the payment in cash or in specie of £10,000,000 on each such Ordinary Share and/or B Shares;

(C) does not entitle its holder to receive a share certificate in respect of his or her shareholding, save as required by law;

(D) does not entitle its holder to receive notice of, nor attend, speak or vote at, any general meeting of the company; and

(E) shall not be transferable at any time other than with the prior written consent of the directors;

2. The Company shall have the irrevocable authority to authorise and instruct the Secretary of the Company (or any other person appointed for the purpose by the Board of Directors) as agent for the holders of Non-Voting Deferred Shares Series B to surrender the Non-Voting Deferred Shares Series B to the Company for no consideration and to execute on behalf of such holders such documents as are necessary in connection with such surrender without obtaining the sanction of the holder or holders thereof, and pending such surrender to retain the certificates, to the extent issued, for such Non-Voting Deferred Shares Series B.

3. Any request by the Company to surrender the Non-Voting Deferred Shares Series B may be made by the Directors depositing at the registered office of the Company a notice addressed to such person as the Directors shall have nominated on behalf of the holders of the Non-Voting Deferred Shares Series B.

4. The Company shall have the irrevocable authority to appoint a single holder or any other person on behalf of all holders of Non-Voting Deferred Shares Series B to exercise any vote to which holders of Non-Voting Deferred Shares Series B may be entitled in any circumstances or for any other matter connected to the Non-Voting Deferred Shares Series B

5. The rights attached to the Non-Voting Deferred Shares Series B shall not be deemed to be varied or abrogated by the creation or issue of any new shares ranking in priority to or pari passu with or subsequent to such shares, any amendment or variation of the rights of any other class of shares of the Company, the Company reducing its share capital or the surrender, or purchase of any share, whether a Non-Voting Deferred Shares Series B or otherwise.

6. The Company shall have the irrevocable authority to cancel any Non-Voting Deferred Shares Series B without making any payment to the holder and such cancellation shall not be deemed to be a variation or abrogation of the rights attaching to such Non-Voting Deferred Shares Series B.

IN WITNESS WHEREOF this agreement has been entered into as of the date which first appears on page 1 of this agreement on the dates which appear below.

SIGNED for and on behalf of)
THE ROYAL BANK OF SCOTLAND)
GROUP PLC)

Date:

SIGNED by two of)
THE COMMISSIONERS OF HER)
MAJESTY'S TREASURY)

Date:

Exhibit 4.18

Certain information has been omitted from the exhibit because it is both (i) not material and (ii) of the type that the registrant customarily and actually treats as private or confidential. The omissions have been indicated by ("[***]")

DATED 23 November 2009

THE COMMISSIONERS OF HER MAJESTY'S TREASURY

and

THE ROYAL BANK OF SCOTLAND GROUP PLC

STATE AID COSTS REIMBURSEMENT DEED

Slaughter and May
One Bunhill Row
London EC1Y 8YY
(TP/JGZW)

CA093240071

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THIS STATE AID COSTS REIMBURSEMENT DEED is made on 23 November 2009

BETWEEN:

(1) **THE COMMISSIONERS OF HER MAJESTY'S TREASURY** of 1 Horse Guards Road, London SW1A 2HQ (the "Treasury"); and

(2) **THE ROYAL BANK OF SCOTLAND GROUP PLC**, a public company incorporated in Scotland with registered number SC045551 and whose registered office is at 36 St Andrew Square, Edinburgh, Scotland EH2 2YB ("**RBSG**").

WHEREAS:

(A) On 19 January 2009, Her Majesty's " Government of the United Kingdom (the "**Government**") announced its intention to offer the Asset Protection Scheme (the "**Scheme**") to protect certain eligible financial institutions against exceptional future credit losses on certain portfolios of assets and exposures. The Scheme constitutes "financial assistance" for the purpose of section 257 of the Banking Act 2009.

(B) On 26 February 2009, RBSG announced its intention to participate in the Scheme and entered into discussions with the Treasury regarding the terms of the Scheme and the accession of The Royal Bank of Scotland plc (the "**Participant**") to it.

(C) On 3 November 2009, RBSG announced the proposed terms attaching to the intended participation of the Participant in the Scheme and, on or about the date of this Deed, RBSG and the Participant are expected to enter into an accession agreement with the Treasury pursuant to which the Participant will participate in the Scheme on and subject to (i) the terms and conditions set out therein (the "**Accession Agreement**") and (ii) the terms and conditions of the Scheme (as amended, modified, supplemented or replaced from time to time, the "**Conditions**").

(D) In addition to the Participant's intended participation in the Scheme, it is intended that the Treasury will subscribe for £25.5 billion of 'B' shares in RBSG (the "**Subscription**") and commit to subscribe in certain circumstances for an additional £8 billion of 'B' shares (the "**Contingent Capital**").

(E) RBSG is a participant in: (i) the recapitalisation scheme (the "**Recapitalisation Scheme**"); and (ii) the credit guarantee scheme, the terms of which were announced by the Government on 8 October 2008.

(F) The participation of the Participant in the Scheme, and RBSG's participation in the Scheme, the Recapitalisation Scheme, and the Subscription and the Contingent Capital, are each subject to approval from the European Commission (either on a temporary or final basis) as aid compatible with article 87 of the EC Treaty.

(G) It is proposed that RBSG will enter into certain commitments and undertakings as set out in a deed (the "**State Aid Commitment Deed**") designed to ensure that the Treasury is able to comply with the commitments or conditions subject to which the European Commission has granted (or it is anticipated will grant) the State Aid

Approvals in respect of the aid provided by the Treasury referred to in Recital (F) (the "**State Aid**").

(H) In connection with its accession to the Scheme and its obligations under the State Aid Commitment Deed, RBSG undertakes on the terms set out below to reimburse the Treasury for certain fees, costs and expenses associated with the State Aid and the State Aid Approvals.

NOW THIS DEED WITNESSES AS FOLLOWS:

1. DEFINITIONS AND INTERPRETATION

1.1 In this Deed (including the Recitals):

"**Accession Agreement**" has the meaning given in Recital (C);

"**Conditions**" has the meaning given in Recital (C) and "**Condition**" shall be construed accordingly;

"**State Aid**" has the meaning given in Recital (G);

"**State Aid Approvals**" means any state aid approval for the State Aid in their original terms, as supplemented, modified or replaced subject to and in accordance with the State Aid Commitment Deed; and

"**State Aid Commitment Deed**" has the meaning given in Recital (G).

1.2 Capitalised terms used but not defined in this Deed shall have the respective meanings given to them in Condition 56.

1.3 In this Deed, unless otherwise specified:

(A) references to clauses and sub-clauses are to clauses and sub-clauses of this Deed;

(B) the words "**include**" and "**including**" shall be deemed to be followed by the phrase "without limitation";

(C) headings and sub-headings in this Deed are included for ease of reference only and shall not affect the interpretation of this Deed;

(D) any reference to a "**person**" shall be construed so as to include any individual, firm, company, corporation, body corporate, government, state or agency of a state, local or municipal authority or governmental body or any joint venture, association or partnership (whether or not having separate legal personality);

(E) any reference to any statute, statutory provision or rules or regulations made thereunder shall be construed as a reference to the same as it may have been, or may from time to time be, amended, modified, re-enacted or replaced; and

(F) a reference to any other document is a reference to that other document as amended, varied or supplemented at any time.

1.4 This Deed is a "**Scheme Document**" for the purposes of the Conditions.

2. FEES, COSTS AND EXPENSES

2.1 RBSG shall bear all costs and expenses incurred by it and the other members of its Group arising out of or in connection with the performance of its duties and obligations under this Deed and the State Aid Commitment Deed.

2.2 RBSG shall pay to the Treasury the costs and expenses calculated by the Treasury as being incurred by the Treasury and the Treasury Solicitor in connection with:

(A) discussions or negotiations with the European Commission in relation to the State Aid Approvals; and

(B) the exercise of the Treasury's rights and powers under, and the performance of its duties and obligations in connection with the matters contemplated by, this Deed and the State Aid Commitment Deed (including with respect to: (i) the preparation, negotiation, execution and carrying into effect of this Deed and the State Aid Commitment Deed; (ii) the Treasury's compliance with the State Aid Approvals; and (iii) monitoring and ensuring RBSG's compliance with its obligations under, or contemplated by, this Deed and the State Aid Commitment Deed),

regardless of whether or not such costs and expenses are incurred before or after the date of this Deed ("**State Aid Costs**").

2.3 The Treasury may deliver an invoice to RBSG in respect of State Aid Costs at any time following the date of this Deed, but shall not deliver more than one invoice for State Aid Costs to RBSG in anyone calendar month.

2.4 RBSG shall pay all invoices delivered to it in respect of State Aid Costs pursuant to clause 2.3 within 30 days of the date on which such invoice is delivered.

2.5 The Treasury shall provide with any invoice delivered pursuant to clause 2.3 a breakdown of the costs and expenses covered by such invoice, provided that such breakdown need not contain any more information than the Treasury intends at that time to disclose to the public in respect of such costs and expenses.

2.6 Any payment of State Aid Costs shall be made in pounds sterling to such account as may be notified to RBSG in writing by the Treasury from time to time; all such payments

shall be made in full, free and clear of any right of set-off and from any restriction, condition or deduction because of any counterclaim.

2.7 For the purposes of this clause 2, "costs and expenses" has the meaning given to that expression in Condition 9.2.

2.8 RBSG's obligations to reimburse costs and expenses pursuant to clauses 2.2 to 2.6 (inclusive) shall be limited to such amount as is equal to [***] of the aggregate value of all of the ordinary shares (excluding treasury shares) of RBSG as at market close on the date of this Deed.

2.9 The Treasury shall not be entitled to recover costs or expenses under this clause 2 if and to the extent that it has already recovered such costs or expenses under the Conditions or any other Scheme Document.

3. WARRANTIES

RBSG represents and warrants to the Treasury on the date of this Deed that:

(A) it is duly organised and validly existing under the laws of its jurisdiction of organisation;

(B) it has the corporate power and the authority to execute and deliver this Deed and to perform its obligations under this Deed, and no additional act or proceeding, corporate or otherwise, on its part is necessary to authorise the execution and delivery of this Deed or the performance of any of its obligations under this Deed;

(C) subject to any principles of law affecting the rights of creditors generally and the provisions of section 117 of the Stamp Act 1891, the obligations expressed to be assumed by LBG under this Deed are legal, valid, binding and enforceable obligations;

(D) it has duly executed and delivered this Deed; and

(E) the only applicable "percentage ratio" (as that term is used in Chapters 10 and 11 of the listing rules made by the Financial Services Authority pursuant to Part VI of the Financial Services and Markets Act 2000 (the "**Listing Rules**")) which is relevant to the matters contained in this Deed, is the "consideration test" (as that term is used in Chapters 10 and 11 of the Listing Rules).

4. TAX MATTERS

Without prejudice to the application of Conditions 38.1 to 38.6 (inclusive) and Condition 41.6 regardless of this clause 4, those Conditions shall also apply in relation to this Deed, with any necessary modifications, as they would apply if any reference therein to the "Participant" were instead a reference to RBSG.

5. ANNOUNCEMENTS AND PUBLICITY

Any announcement or public statement proposed to be made, published, issued or released by RBSG or any member of its Group (or any of their respective Representatives) in relation to, or which refers to: (i) this Deed; (ii) the State Aid Commitment Deed (or any ancillary matter); (iii) the Treasury in connection with this Deed; or (iv) the State Aid Approvals or the State Aid, each constitutes a "**Scheme Statement**" for the purposes of the Conditions and will therefore be subject to the restrictions imposed by the Conditions on such announcements and public statements.

6. REMEDIES

6.1 No delay or omission by the Treasury or RBSG (as the case may be) in exercising any right, power or remedy provided by law or under or pursuant to the Deed shall: (i) affect that right, power or remedy; or (ii) operate as a waiver of it.

6.2 The single or partial exercise by the Treasury of any right, power or remedy provided by law or under or pursuant to this Deed shall not, unless otherwise expressly stated, preclude any other or further exercise of it or the exercise of any other right, power or remedy.

6.3 Any right of the Treasury is cumulative and not exclusive of any other right (whether provided by law or otherwise).

6.4 RBSG acknowledges and agrees that damages may not be an adequate remedy for any breach of any of this Deed, and further acknowledges and agrees that, without prejudice to any other rights or remedies which the Treasury may have, whether pursuant to a provision of this Deed or otherwise equitable relief (including specific performance and injunction) for any such breach (or potential breach) will normally be appropriate. RBSG agrees not to raise any objection to any application by the Treasury for any such remedies.

7. NOTICES

7.1 Except as otherwise provided in this Deed, a notice under this Deed shall only be effective if it is in writing. Facsimile transmissions are permitted but email is not.

7.2 Notices under this Deed shall be sent to a party to this Deed at its address or number and for the attention of the individual set out below:

Party and title of individual	Address	Facsimile no.
RBSG	Gogarburn, Edinburgh, EH12 1HQ Attention: Group General Counsel	0131 626 3081

	and Group Secretary	
Treasury	1 Horse Guards Road London SW1A 2HQ	020 7270 4844
	Attention: Team Leader, Financial Stability	

provided that a party may change its notice details on giving notice to the other party of the change in accordance with this clause 7. That notice shall only be effective on the day falling five clear Business Days after the notification has been received or such later date as may be specified in the notice.

7.3 Any notice given under this Deed shall, in the absence of earlier receipt, be deemed to have been duly given as follows:

(A) if delivered personally, on delivery;

(B) if sent by first class post, two clear Business Days after the date of posting; and

(C) if sent by facsimile, when despatched.

7.4 Any notice given under this Deed outside Working Hours in the place to which it is addressed shall be deemed not to have been given until the start of the next period of Working Hours in such place.

7.5 The provisions of this clause 7 shall not apply in relation to the service of Service Documents.

8. MISCELLANEOUS

8.1 RBSG shall at its own cost, and so far as it is able to do so in accordance with Applicable Law, from time to time on request, do or procure the doing of all acts and/or execute or procure the execution of all documents in a form satisfactory to the Treasury which the Treasury may (acting reasonably) consider necessary for giving full effect to this Deed and securing to the Treasury the full benefit of the rights, powers and remedies conferred upon the Treasury under or pursuant to this Deed.

8.2 If any provision of this Deed shall be held to be illegal, invalid or unenforceable, in whole or in part, under any enactment or rule of law, such provision or part shall to that extent be deemed not to form part of this Deed but the legality, validity and enforceability of the remainder of this Deed shall not be affected.

8.3 The parties to this Deed do not intend that any term of this Deed should be enforceable, by virtue of the Contracts (Rights of Third Parties) Act 1999, by any person who is not a party to this Deed.

8.4 This Deed may be executed in any number of counterparts, and by the parties on separate counterparts, but shall not be effective until each party has executed at least one counterpart. Each counterpart shall constitute an original of this Deed, but all the counterparts together shall constitute one and the same instrument.

8.5 Any term of this Deed may be amended, and the observance of any term of this Deed may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Treasury.

9. GOVERNING LAW

Any matter, claim or dispute arising out of or in connection with this Deed, whether such matter, claim or dispute is contractual or non-contractual, shall be governed by and determined in accordance with the laws of England.

IN WITNESS WHEREOF this document has been executed and delivered as a deed the day and year first before written.

Executed as a deed by two of **THE COMMISSIONERS OF HER MAJESTY'S TREASURY**	)))By:))))By:	…… ……
Executed as a deed by **THE ROYAL BANK OF SCOTLAND GROUP PLC** acting by a director and its secretary/two directors:	)))By:)))))By:))	…….. Director …….. Director/Secretary

Exhibit 4.24

Certain information has been omitted from the exhibit because it is both (i) not material and (ii) of the type that the registrant customarily and actually treats as private or confidential. The omissions have been indicated by ("[***]").

DATE: 6 FEBRUARY 2023

FRAMEWORK AGREEMENT

BETWEEN

NATIONAL WESTMINSTER BANK PLC

AND

NATWEST PENSION TRUSTEE LIMITED

RELATING TO THE

MAIN SECTION OF THE NATWEST GROUP PENSION FUND

CMS Cameron McKenna Nabarro Olswang LLP
Cannon Place
78 Cannon Street
London EC4N 6AF
T +44 20 7367 3000
F +44 20 7367 2000
cms.law

THIS DEED is made on 6 February 2023 between:

(1) **NATIONAL WESTMINSTER BANK PLC** (registered number 929027) whose registered office is at 250 Bishopsgate, London, England, EC2M 4AA (the "**Principal Employer**"); and

(2) **NATWEST PENSION TRUSTEE LIMITED** (registered number 2726164) whose registered office is at 250 Bishopsgate, London, England, EC2M 4AA ("**NWPTL**") together, the "**Parties**".

INTRODUCTION

(A) The retirement benefits scheme known as the NatWest Group Pension Fund (the "**Group Fund**") is governed by a definitive trust deed and rules dated 13 April 2021 (as amended from time to time). NWPTL is the trustee of the Main Section of the Group Fund (the "**Main Section**") among others. The Principal Employer is the principal employer of the Group Fund.

(B) Under a Framework Agreement dated 28 September 2018 between the Principal Employer and NWPTL (among others) (the "**2018 Framework Agreement**"), the Bank agreed to pay to the Main Section a proportion of any amounts to be distributed to the NatWest Group plc shareholders (ordinary or special dividends or share buy-backs) subject to agreed caps (a "**Distribution Linked Contribution**").

(C) The Principal Employer and NWPTL entered into non-legally binding heads of terms dated 9 January 2023 (the "**Heads of Terms**"), which described the basis on which the Parties would agree to amend the 2018 Framework Agreement.

(D) The following documents have been or are to be signed by their respective parties on or around the same date as this Framework Agreement:

a) Deed of Amendment to the 2018 Framework Agreement (the "**Amendment Deed**"); and

b) a revised Schedule of Contributions.

(E) The Parties anticipate entering into further documents (together with other parties, including in particular, the Reservoir Trustee (as defined at Clause 1 below)) to give effect to the matters described in this Framework Agreement.

(F) The Parties anticipate that a Distribution Linked Contribution payment of approximately GBP 471,100,000 (the "**Anticipated DLC**") will become payable by the Principal Employer to the Main Section in 2023 (or later years) pursuant to the 2018 Framework Agreement as the Principal Employer anticipates that dividends will be paid by NatWest Group plc.

(G) Given the current funding level of the Main Section, there exists a possibility that the Anticipated DLC could contribute to any trapped surplus which ultimately occurs when the Main Section is eventually wound up.

(H) NWPTL is actively pursuing a target of buy-in for the Main Section and intends to hold a buffer in excess of any buy-in premium to cover residual risk. The Parties are proposing certain arrangements, including as set out in this Framework Agreement and the amended 2018 Framework Agreement, which it is intended will (a) reduce the risk or magnitude of any eventual trapped surplus and (b) not materially prejudice the security of member benefits.

OPERATIVE PROVISIONS

1. INTERPRETATION

1.1 In this Agreement:

2020 Valuation means the actuarial valuation for the Main Section as at 31 December 2020, as required under section 224 of the Pensions Act 2004.

2023 Valuation means the actuarial valuation for the Main Section as at 31 December 2023, as required under section 224 of the Pensions Act 2004.

2023 Valuation Schedule of Contributions means the schedule of contributions to be agreed for the Main Section for the 2023 Valuation, as required under section 227 of the Pensions Act 2004.

AA Section means the AA Section (as defined in the Trust Deed and Rules) of the Group Fund.

Alternative Vehicle means an arrangement entered into between NWPTL and the Principal Employer in place of the Reservoir Trust.

Draft Payment Triggers Agreement means the draft of the Final Payment Triggers Agreement attached at Schedule Two.

Draft RT Deed means the draft deed attached at Schedule One.

Expense Reserve means the sum of the following elements:

(a) 3% of SSL up to GBP 50,000,000, 2% of SSL between GBP 50,000,000 and GBP 100,000,000, and 1% of SSL in excess of GBP 100,000,000; plus

(b) GBP 1,000 in respect of each Non-Pensioner Member; plus

(c) in respect of each Main Section Pensioner and each Main Section Ex-Spouse Pensioner:

(i) GBP 900 where the Member is under age 60;

(ii) GBP 800 where the Member is age 60 to 69;

(iii) GBP 600 where the Member is age 70 to 79; and

(iv) GBP 500 where the Member is age 80 or older,

or such other amount as agreed by the Bank and NWPTL from time to time.

Ex-Spouse Pensioner has the meaning set out in the Trust Deed and Rules.

Final Payment Triggers Agreement means the agreement relating to the Reservoir Trust to be entered into between (at least) NWPTL and the Principal Employer under which the Parties will agree that the absolute beneficial interests from time to time in the Reservoir Trust will be contractually determined.

Future Service Contributions means contributions to the Group Fund in respect of the Future Service Rate.

Future Service Rate means the cost of the benefits accrued from the future service of active members of the Group Fund.

Group Fund means the NatWest Group Pension Fund referred to in Recital (A).

Main Section means the Main Section (as defined in the Trust Deed and Rules) of the Group Fund.

Member has the meaning set out in the Trust Deed and Rules.

Non-Pensioner Member means a Member of the Main Section who is not a Pensioner or an Ex-Spouse Pensioner.

Objective has the meaning given in Clause 4.1.

Pensioner has the meaning set out in the Trust Deed and Rules.

Protection has the meaning given in Clause 3.4.

Reservoir Trust means the NatWest Pension Reservoir Trust to be established by a trust deed as further described in Clause 2, under which amounts otherwise payable to the Main Section are instead held on trust on terms such that amounts may be returned to the Principal Employer or paid to the Main Section in accordance with the Final Payment Triggers Agreement.

Reservoir Trustee means the trustee of the Reservoir Trust from time to time.

Schedule of Contributions means the schedule of contributions in place in respect of the Main Section in force from time to time in accordance with Part 3 of the Pensions Act 2004.

Section 75 Debt means an amount due from the Principal Employer under section 75 of the Pensions Act 1995.

Specific Tax Liabilities has the meaning given in Clause 3.2.

SPV has the meaning given in Clause 4.1.2.

SSL means the value of the liabilities of the Main Section calculated on the SSL Basis.

SSL Basis means the actuarial calculation basis for the Main Section's technical provisions as defined under the Statement of Funding Principles but using a discount rate of the better (higher) of spot gilt and swap yields at each yearly tenor plus a 0% spread using an RPI inflation assumption of the better (lower) of spot gilt RPI breakeven and swap RPI at each yearly tenor and incorporating a value for expenses calculated in accordance with the Expense Reserve or such other actuarial calculation basis as the Parties may agree from time to time to be the SSL Basis for the purposes of the Payment Triggers Agreement relating to the NatWest Pension Reservoir Trust or Alternative Vehicle.

Statement of Funding Principles means the statement of funding principles in respect of the Main Section in force at the time of the relevant calculation under this Agreement in accordance with Part 3 of the Pensions Act.

Trust Deed and Rules means the definitive trust deed and rules dated 13 April 2021 (as amended from time to time) governing the Group Fund.

2. RESERVOIR TRUST

2.1 The Parties will enter into the documentation necessary to establish the Reservoir Trust as soon as reasonably practicable after the date of this Framework Agreement, including in particular the deed to establish and govern the Reservoir Trust and the Final Payment Triggers Agreement, and NWPTL will agree that the Principal Employer may pay any amount due under Clause 7 of the 2018 Framework Agreement (as amended by the Amendment Deed) to the Reservoir Trust, provided that:

2.1.1 the deed to establish and govern the Reservoir Trust is substantially in the same form as the Draft RT Deed (amended as described in this Agreement);

2.1.2 the Final Payment Triggers Agreement is substantially in the same form as the Draft Payment Triggers Agreement (amended as described in this Agreement); and

2.1.3 the Principal Employer complies with its obligations under Clause 3 and 4, to the satisfaction of NWPTL (acting reasonably) (but subject to Clause 4.6).

2.2 NWPTL and the Principal Employer will work together in good faith to identify and agree engagement terms with a third party professional trustee who will be appointed as the first Reservoir Trustee. Any replacement as Reservoir Trustee will be appointed in accordance with the terms of the trust deed which governs the Reservoir Trust from time to time.

2.3 The Principal Employer will fund the Reservoir Trust (or procure that the Reservoir Trust is funded) with a payment of £100 on establishment. The Principal Employer will make or procure a further payment to the Reservoir Trust under Clause 7 of the 2018 Framework Agreement, as amended by the Amendment Deed, no later than 90 days after any relevant distribution to shareholders is made by NatWest Group plc, unless the Principal Employer and NWPTL agree a later date.

2.4 Payments will be made from the Reservoir Trust in line with the triggers set out in the Final Payment Triggers Agreement, which shall (subject to any amendments as described in this Agreement) be substantially in the same form as the document attached as Schedule Two.

2.5 The Parties acknowledge that a potential appointee as the initial Reservoir Trustee will wish to review the terms of the Draft RT Deed and the Draft Payment Triggers Agreement and that, as a consequence of such review, it may be necessary or desirable to make changes to the terms of either or both documents prior to them being finalised and executed. The Principal Employer acknowledges that such changes may include providing an employer indemnity or other protection to the Reservoir Trustee. The Parties will cooperate with each other (and with the potential appointee) to identify and agree the terms of such changes in a timely manner.

2.6 The Principal Employer acknowledges that NWPTL would like the Reservoir Trustee to be permitted to invest in sterling denominated cash funds. The Principal Employer will consider prior to the establishment of the Reservoir Trust whether, and to what extent, it would be consistent with the Principal Employer's legal and regulatory obligations to allow this (with a view to any appropriate language being included in the final version of the trust deed governing the Reservoir Trust).

3. TAX MATTERS

3.1 The Parties confirm that their expectation is that the Reservoir Trust will be treated as a "bare trust" for tax purposes, and that in consequence no tax charge will arise against the assets while held within the Reservoir Trust or against NWPTL in relation to any income or gains arising on the assets held within the Reservoir Trust or will apply to any payments from the Reservoir Trust to the Main Section.

3.2 The Principal Employer acknowledges that if HMRC does not accept that the Reservoir Trust is a bare trust or potentially otherwise:

3.2.1 the assets of the Reservoir Trust may be subject to a tax charge against the Reservoir Trustee;

3.2.2 the income and gains arising on the assets of the Reservoir Trust may be subject to a tax charge against the Reservoir Trustee or NWPTL ;

3.2.3 any transfer of beneficial interest in the Reservoir Trust to NWPTL may be subject to a tax charge against NWPTL or against the Reservoir Trustee;

3.2.4 any payments from the Reservoir Trust to the Main Section may be subject to a tax charge against NWPTL or a requirement for the Reservoir Trustee to withhold tax; and/or

3.2.5 any payment from the Principal Employer to the Reservoir Trust may be subject to a requirement to withhold tax,

(such charges or requirements are referred to in this Clause 3 as the "**Specific Tax Liabilities"**).

3.3 NWPTL has requested that the Principal Employer provide an indemnity in favour of each of NWPTL and the Reservoir Trustee in respect of the Specific Tax Liabilities and certain other potential tax charges and that it agrees to "gross up" for certain tax liabilities.

3.4 The Principal Employer agrees to use reasonable endeavours to procure that, at or before the date of establishment of the Reservoir Trust, provision is put in place to protect (to the satisfaction of NWPTL, acting reasonably) against the Specific Tax Liabilities in the event that such Specific Tax Liabilities arise in the future (the "**Protection"**).

3.5 The Protection may, without limitation, take the form of any or all of an indemnity, agreement to gross up, or other agreement to reimburse the Reservoir Trustee or NWPTL (as appropriate) and may be included in any or all of the deed to establish and govern the Reservoir Trust, the Final Payment Triggers Agreement or one or more separate documents. The aggregate limit on all claims under such Protection (whether made by NWPTL or the Reservoir Trustee) will initially be £471.1m. The Principal Employer may only pay further amounts into the Reservoir Trust (other than amounts in satisfaction of any tax indemnity or gross up obligation under the Protection) if either this cap is increased by such further amounts or NWPTL otherwise agrees to the payment (such agreement not to be unreasonably withheld). The Protection will be subject to provisions to apply in the event that the existence or amount of any tax liability is disputed (whether as between the Parties, or by the Reservoir Trustee or by HMRC).

3.6 The Principal Employer will also consider in good faith any requests for further protection against tax liabilities from NWPTL or the Reservoir Trustee made prior to the establishment of the Reservoir Trust.

3.7 If it does not prove possible to implement the provisions of this Clause 3 to the satisfaction of NWPTL (acting reasonably), it is acknowledged that the Reservoir Trust will not come into effect and any payments due under Clause 7 of the 2018 Framework Agreement, as amended by the Amendment Deed, will instead be payable into the Main Section, unless NWPTL agrees otherwise. NWPTL will, if the Principal Employer requests, consider in good faith any proposal for an Alternative Vehicle.

4. INSOLVENCY OF THE PRINCIPAL EMPLOYER

4.1 NWPTL has requested that the Principal Employer agree to arrangements intended to have the effect that in the event that (i) a Section 75 debt becomes due to the Main Section from the Principal Employer by reason of its insolvency, or (ii) where the termination and winding up of the Main Section has commenced other than by reason of the Principal Employer's insolvency, and the Principal Employer subsequently becomes insolvent prior to any Section 75 Debt

becoming due by reason of the commencement of winding up of the Main Section, NWPTL has access to the assets of the Reservoir Trust in satisfaction of part or all of such Section 75 Debt (the **Objective**). NWPTL has made two outline proposals namely:

4.1.1 that (i) in the event of certain covenant related events of the Principal Employer, the Principal Employer's beneficial interest under the Reservoir Trust (up to a maximum of the estimated Section 75 Debt) is transferred to NWPTL, with NWPTL then being entitled to a payment equal to that estimated Section 75 Debt from the assets of the Reservoir Trust, and (ii) the Principal Employer enters into a first ranking charge over its beneficial interest under the Reservoir Trust in favour of NWPTL as security for any Section 75 Debt which is due from the Principal Employer; or

4.1.2 that the Principal Employer establishes a special purpose vehicle ("**SPV**") which will hold the beneficial interest in the Reservoir Trust (in place of the Principal Employer) and which grants a first ranking fixed charge over that beneficial interest in favour of NWPTL as security for any Section 75 Debt which arises on the insolvency of the Principal Employer.

4.2 The Principal Employer agrees that it will use reasonable endeavours to put in place arrangements with effect from establishment of the Reservoir Trust intended to achieve the Objective. At the date of this Framework Agreement, the Principal Employer is exploring what arrangements may be acceptable to it in this respect, having regard in particular to its legal and regulatory obligations and its capital management arrangements.

4.3 The Principal Employer confirms that its current preference is an arrangement similar to that referred to in Clause 4.1.2 (but it does not hereby commit to such an arrangement). However, the Principal Employer agrees that the arrangements put in place will, to the satisfaction of NWPTL (acting reasonably):

4.3.1 in the event that any Section 75 Debt becomes due to the Main Section from the Principal Employer by reason of its insolvency (or by reason of the winding up of the Main Section, where the Principal Employer becomes insolvent after winding up has commenced but before any Section 75 Debt arising by reason of such winding up becomes due), enable NWPTL to have recourse to the assets of the Reservoir Trust in satisfaction of part or all of such Section 75 Debt;

4.3.2 prevent the Principal Employer or the special purpose vehicle from amending the arrangements in a way which materially adversely affects NWPTL's position without NWPTL's prior written consent; and

4.3.3 if arrangements are implemented as described in Clause 4.1.2:

(a) provide that the SPV would be a newly-incorporated company, established under the laws of England & Wales, wholly-owned by the Principal Employer, or by such other entity or entities in the same NatWest group of companies as the Principal Employer, after consulting NWPTL, decides;

(b) include customary arrangements in order that the SPV is 'bankruptcy remote' for the duration of the Reservoir Trust, which would include without limitation, restrictions on the SPV undertaking any other business or trade or incurring any financial indebtedness;

(c) provide that the charge in favour of NWPTL will be in the form of a first ranking fixed charge as security for the Principal Employer's Section 75 Debt arising on its insolvency; and

4.3.4 if arrangements are implemented as described in Clause 4.1.1, any triggers for the switch in beneficial ownership will precede any "relevant event" of the Principal Employer as defined for the purposes of section 75 of the Pensions Act 1995 (with the specific triggers to be agreed between the Parties prior to establishment of the Reservoir Trust).

For the avoidance of doubt, nothing in this Clause 4.3 prevents the Principal Employer from implementing arrangements which are different to either of those described at Clause 4.1, provided those different arrangements are acceptable to NWPTL (acting reasonably).

4.4 The Parties acknowledge that, in order to accommodate the arrangements described at Clause 4.3, it may be necessary or desirable to amend the terms of any or all of this Framework Agreement, the Draft Payment Triggers Agreement or the Draft RT Deed or to adopt such other documents (including a fixed charge) as are necessary to implement the relevant arrangements. The Parties will cooperate with each other (and with the Reservoir Trustee as appropriate) to identify and agree the terms of such changes and/or documents in a timely manner. Without limitation, in the event that an arrangement as described at Clause 4.1.2 is put in place, the Parties expect that it will be necessary to amend the Draft Payment Triggers Agreement and the Draft RT Deed to provide that the SPV (rather than the Principal Employer) is a beneficiary under the Reservoir Trust and to facilitate payments from the Reservoir Trust to the SPV (rather than to the Principal Employer).

4.5 The Parties acknowledge that as at the date of this Framework Agreement, the Principal Employer has not been able to complete its processes to obtain the required internal approvals to put in place arrangements as described at Clause 4.3. The Parties also acknowledge that, in considering what arrangements may be appropriate for the purposes of achieving the Objective, the Principal Employer will need to consider the tax implications, in particular (but without limitation), with a view to ensuring the tax deductibility of any payment from the Reservoir Trust to the Main Section and that the Principal Employer has not been able to do so as at the date of this Framework Agreement.

4.6 If, despite the Principal Employer's reasonable endeavours, it is unable to obtain approval to arrangements as described at Clause 4.3 (whether by reason of tax issues as described above or otherwise), it will promptly notify NWPTL. The Principal Employer acknowledges that neither it nor NWPTL will be obliged under Clause 2.1 to establish the Reservoir Trust in those circumstances. The Parties will, however, work together in good faith to identify and implement changes to the Reservoir Trust or an Alternative Vehicle which either is consistent (allowing for any differences of structure) with Clause 4.3 or which otherwise is intended to achieve the Objective. If it does not prove possible to do so within a reasonable period, it is acknowledged that the Reservoir Trust will not come into effect and any payments due under Clause 7 of the 2018 Framework Agreement, as amended by the Amendment Deed, will instead be payable into the Main Section (unless NWPTL agrees otherwise).

4.7 In this Clause 4, "insolvency" means a "relevant event" as defined for the purposes of Section 75 of the Pensions Act 1995 (and reference to NWB "becoming insolvent" shall be read accordingly).

4.8 The Parties acknowledge that if a structure involving establishment of an SPV is adopted for the purposes of this Clause 4, it will be necessary to review the scope of the Protection to ensure it remains appropriate to that structure.

5. ALTERNATIVE VEHICLE

5.1 If either Party notifies the other (whether before, at or after the establishment of the Reservoir Trust) that it no longer believes the Reservoir Trust to be the appropriate vehicle to hold Distribution Linked Contributions (including, without limitation, if it would result in adverse tax or regulatory consequences for the Principal Employer or NWPTL or the Reservoir Trustee as a result of a change in law or of the practice or guidance of any relevant regulatory body), the Parties will cooperatively work together to identify amendments to the Reservoir Trust to mitigate such consequences or to terminate the Reservoir Trust and establish an Alternative Vehicle which is as similar as practicable to that described in the Heads of Terms and which gives effect to the Principal Employer's obligations under Clauses 3 and 4.

6. AGREED PRINCIPLES

6.1 The Principal Employer acknowledges that NWPTL cannot fetter the exercise of its powers and discretions in a way which would be inconsistent with its fiduciary duties and legislation, and this Clause 6 shall be subject to that principle. To the extent that any action, obligation or approach under this Clause 6 fetters NWPTL's exercise of its powers and discretions or would otherwise be inconsistent with its fiduciary duties and legislation, it falls away.

Future Service Contributions

6.2 Future Service Contributions shall continue to be paid into the Main Section as agreed at the 2020 Valuation until the date when the 2023 Valuation Schedule of Contributions takes effect. Future Service Contributions shall be reviewed as part of the 2023 Valuation process.

6.3 [***]

2023 valuation

6.4 [***]

6.5 [***]

6.5.1 [***]

6.5.2 [***]

6.5.3 [***]

6.5.4 [***]

6.5.5 [***]

6.5.6 [***]

6.6 [***]

Buy-in arrangements

6.7 [***]

Investment risk appetite

6.8 [***]

6.9 [***]

6.10 [***]

Factor review

6.11 [***]

7. AMENDMENTS AND THIRD PARTY RIGHTS

7.1 This Framework Agreement may be amended by written agreement between the Parties.

7.2 A person who is not a party to this Framework Agreement may not enforce any of its terms under the Contracts (Rights of Third Parties) Act 1999, but this shall not affect any right or remedy of a third party which exists or is available apart from that Act.

8. JURISDICTION

8.1 This Framework Agreement and any non-contractual obligations arising out of or in connection with it shall be governed by English law.

8.2 The English courts have exclusive jurisdiction to settle any dispute arising out of, relating to or having any connection with this Framework Agreement, and any dispute relating to non-contractual obligations arising out of or in connection with it and each party submits to the exclusive jurisdiction of the English courts. For the purpose of this Clause 8, each party waives any objection to the English courts on the groups that they are an inconvenient or inappropriate forum to settle any dispute.

This Deed may be executed in any number of counterparts which taken together shall constitute one document, and any party may execute this Deed by signing any one or more of such counterparts.

The parties have executed this document as a deed on the date set out above.

Executed as a deed by)
NATIONAL WESTMINSTER BANK PLC) /s/ Katie Murray
on being signed by Katie Murray, a director in the presence of:)
)

/s/ Kirsty Byram
Signature of Witness
Full name: Kirsty Byram
Address: 250 Bishopsgate
London
EC2M 4AA

Executed as a deed by)
NATWEST PENSION TRUSTEE LIMITED) /s/ Joanna Matthews
on being signed by:) Director
Joanna Matthews)
and Wendy Tavendale) /s/ Wendy Tavendale
Director/Secretary

TRUST DEED

NATWEST PENSION RESERVOIR TRUST

DATED

[ ]

as Trustee

and

NATIONAL WESTMINSTER BANK PLC and

NATWEST PENSION TRUSTEE LIMITED

as Beneficiaries

ALLEN & OVERY

Allen & Overy LLP

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THIS TRUST DEED is made on [**DATE**]

BETWEEN:

(1) **[●]** registered in England with company number **[●]** whose registered office is at **[●]** (as the **Reservoir Trustee**);

(2) **NATIONAL WESTMINSTER BANK PLC** registered in England with company number 929027 whose registered office is at 250 Bishopsgate, London, England, EC2M 4AA (the **Bank**); and

(3) **NATWEST PENSION TRUSTEE LIMITED** registered in England with company number 2726164 whose registered office is at 250 Bishopsgate, London, England, EC2M 4AA (**NWPTL**).

WHEREAS:

(A) This trust shall be known as the NatWest Pension Reservoir Trust.

(B) The retirement benefits scheme known as the NatWest Group Pension Fund (the **Group Fund**) is governed by a definitive trust deed and rules dated 13 April 2021 (as amended from time to time). NWPTL is the trustee of the Main Section of the Group Fund (the **Main Section**) among others. The Bank is the principal employer of the Group Fund.

(C) Under a Framework Agreement dated 28 September 2018 between the Bank and NWPTL (among others) (the **Framework Agreement**) the Bank agreed to pay to the Main Section a proportion of any amounts to be distributed to the National Westminster Group plc shareholders (ordinary or special dividends or share buy-backs) subject to agreed caps (a **Distribution Linked Contribution**).

(D) The Bank and NWPTL anticipate that a Distribution Linked Contribution of approximately up to GBP 471,100,000 will become payable to the Main Section in 2023. The Bank and NWPTL have amended the Framework Agreement such that such Distribution Linked Contribution (or any other Distribution Linked Contributions payable in the future which fall under the terms of the Framework Agreement) will instead be payable to the Reservoir Trustee to be held in accordance with this Trust Deed.

(E) The Bank shall pay a nominal cash sum of GBP 100 to the Reservoir Trustee to establish the NatWest Pension Reservoir Trust. Such payment shall be made as soon as practicable after execution of this Trust Deed.

(F) The Bank entered into a Payment Triggers Agreement with NWPTL on [●], a copy of which is attached at Schedule 1 (the **Payment Triggers Agreement**) under which the Bank and NWPTL have agreed that their respective absolute beneficial interests from time to time in the NatWest Pension Reservoir Trust will be contractually determined.

(G) The Reservoir Trustee is entering into this Trust Deed in its capacity as trustee of the trusts constituted by this Trust Deed. The Beneficiaries (as defined below) direct the Reservoir Trustee that the beneficial interests under the NatWest Pension Reservoir Trust and payments to the Beneficiaries from the NatWest Pension Reservoir Trust will be determined in accordance with this Trust Deed and the terms of the Payment Triggers Agreement.

NOW THIS DEED WITNESSES AS FOLLOWS:

1. INTERPRETATION

1.1 Definitions in this Trust Deed:

Bank Share means a beneficial interest in 100% of the Trust Property less the NWPTL Share from time to time;

Beneficiaries means:

(a) the Bank; and

(b) NWPTL,

and **Beneficiary** means any one of the Beneficiaries;

Instruction means an instruction from the Beneficiaries to the Reservoir Trustee relating to the allocation of the beneficial interest in the Trust Property and/or the payment out of the Trust Property, such instruction being in the form contained in Appendix 2 to the Payment Triggers Agreement and signed by one or both of the Beneficiaries;

NWPTL Share means a beneficial interest in the Trust Property from time to time pursuant to any transfer made under the Payment Triggers Agreement and as recorded in an Instruction;

Trust Account means [●]; and

Trust Property means the assets of the trust constituted by this Trust Deed as are held by the Reservoir Trustee from time to time, including the amount of any Distribution Linked Contributions paid to the Reservoir Trustee together with the GBP 100 nominal cash sum paid by the Bank to establish the NatWest Pension Reservoir Trust and such other amounts as the Bank and NWPTL may agree shall be paid to the Reservoir Trustee including the income arising on the Trust Property less any deductions or payments permitted by the terms of this Trust Deed.

1.2 Construction

(a) Capitalised terms defined in the Payment Triggers Agreement have, unless they are expressly defined in this Trust Deed, the same meaning in this Trust Deed.

(b) Unless a contrary indication appears, any reference in this Trust Deed to:

(i) **Reservoir Trustee** or **NWPTL** shall be construed so as to include its successors in title, permitted assigns and permitted transferees and to, or of, its rights and/or obligations under this Trust Deed;

(ii) a **person** includes any individual, firm, company, corporation, government, state or agency of a state or any association, trust, joint venture, consortium, partnership or other entity (whether or not having separate legal personality);

(iii) **assets** includes present and future properties, revenues and rights of every description;

(iv) any agreement or instrument is a reference to that agreement or instrument as amended, novated, supplemented, extended or restated; and

(v) a provision of law is a reference to that provision as amended or re-enacted.

2. DECLARATION OF TRUST

(a) This Trust Deed (including, without limitation, the declaration of trust set out in this Clause 2) shall come into effect upon receipt by the Reservoir Trustee of a nominal cash sum of GBP 100 paid by the Bank.

(b) The Reservoir Trustee hereby declares that it will hold the Trust Property with and subject to all the trusts, powers and provisions of this Trust Deed as follows:

(i) as to the Bank Share on trust for the Bank absolutely; and

(ii) as to the NWPTL Share on trust for NWPTL absolutely.

3. COVENANTS CONCERNING THE TRUST PROPERTY

3.1 Affirmative Covenants

The Beneficiaries direct the Reservoir Trustee and the Reservoir Trustee covenants with the Beneficiaries that until the termination and winding up of the NatWest Pension Reservoir Trust it shall:

(a) perform its obligations in respect of the Trust Property as described in this Trust Deed; and

(b) not otherwise assign, transfer or otherwise dispose of any interest, legal or equitable, in respect of the Trust Property without the prior written consent of the Beneficiaries.

3.2 Negative Covenant

The Reservoir Trustee covenants and undertakes that it shall not act in breach of this Trust Deed or outside its capacity or outside the authorities set out in this Trust Deed, without the prior written consent of the Beneficiaries.

3.3 Information

The Reservoir Trustee undertakes in favour of the Beneficiaries that it will provide to the Beneficiaries, as soon as reasonably practicable, any information, reports and other documents which it receives or produces relating to the holding of the Trust Property (including the assets held and any income or other profits in respect of the assets and the costs and expenses of operating the trust) if so requested by the Beneficiaries or any one of them.

3.4 Conflicts of Interest

The Reservoir Trustee shall, as regards all the powers, trusts, authorities and duties vested in it under this Trust Deed, except where expressly provided otherwise, have regard exclusively to the interests of the Beneficiaries insofar as they relate to the Trust Property.

4. NWPTL SHARE

On receipt by the Reservoir Trustee of a signed Instruction which records the transfer to the NWPTL Share of an amount of the beneficial interest in the Trust Property equal to the sum stated in the Instruction, the allocation of the Bank Share and/or the NWPTL Share shall be adjusted to reflect that transfer.

5. PAYMENT MECHANISM

(a) It may be that an Instruction issued by the Beneficiaries in accordance with the Payment Triggers Agreement directs the Reservoir Trustee to make a payment out of the Trust Property (in respect of the Bank Share or NWPTL Share as appropriate) to the Bank or NWPTL. If so, the Reservoir Trustee undertakes to make such a payment as directed as soon as reasonably practicable.

(b) If a payment is made in accordance with this Clause 5, the allocation of the Trust Property attributable to the Bank Share and/or the NWPTL Share shall be adjusted to reflect the payment made.

(c) The Beneficiaries each covenant that they will not direct the Reservoir Trustee to make a payment out of the Trust Property (in respect of the Bank Share or NWPTL Share as appropriate) otherwise than in accordance with the Payment Triggers Agreement.

(d) Any payment out of the Trust Property will be in cash or, with the agreement of the Beneficiaries, in whole or part through the transfer of Trust Property to the applicable Beneficiary.

6. TAX INDEMNITY

[Note: wording to be added, where appropriate, to reflect clause 3 of the Framework Agreement.]

7. TERMINATION

The trust constituted by this Trust Deed shall terminate when all Trust Property has been distributed by the Reservoir Trustee in accordance with this Trust Deed unless otherwise agreed by the Bank and NWPTL.

8. TRUST ACCOUNT

(a) The Trust Account will be maintained exclusively for the purposes of receiving, holding and making payments under the provisions of this Trust Deed. The Reservoir Trustee shall not open, close or amend the terms of any Trust Account without the prior consent of the Beneficiaries.

(b) The Reservoir Trustee shall give notice to the provider of the Trust Account or of any other account operated by the Reservoir Trustee for the purposes of holding Trust Property to inform them that the assets held in that account are subject to the trusts under this Trust Deed.

9. NO DELEGATION

The Reservoir Trustee shall not appoint any agent, attorney or other delegate having power to act in respect of the Trust Property without the prior written consent of the Bank and NWPTL (where such consent is not to be unreasonably withheld).

10. POWERS OF INVESTMENT

(a) The Trust Property shall be invested only in sterling denominated gilt-edged securities and sterling cash, unless the Reservoir Trustee is otherwise jointly directed by the Bank and NWPTL. Subject to that restriction, NWPTL and the Reservoir Trustee agree that the Reservoir Trustee shall invest the Trust Property in such manner as is directed by NWPTL from time to time.

(b) The Reservoir Trustee shall otherwise have no powers of investment with respect to the Trust Property or to amounts credited to the Trust Account. Neither the Trustee Act 2000 nor any other provision relating to trustee powers of investment implied by statute or general law shall apply to the Trust Property and, for the avoidance of doubt, the statutory power to accumulate income conferred on trustees by section 31 of the Trustee Act 1925 is expressly excluded.

11. OTHER PROVISIONS REGARDING RESERVOIR TRUSTEE

11.1 No action to impair Trust Property

The Reservoir Trustee shall take no action reasonably likely to impair the interests of the Beneficiaries in any Trust Property now existing or hereafter created or to impair the value of any asset subject to the trust.

11.2 Litigation

The Reservoir Trustee may not prosecute or defend any legal or other proceedings anywhere in the world at the cost of the Trust Property unless otherwise directed by both the Bank and NWPTL.

11.3 Duty to Keep Records and Provide Accounts

The Reservoir Trustee shall maintain or cause to be maintained proper books of account in respect of its duties as trustee under this Trust Deed and shall maintain or cause to be maintained proper records of any assets held by it, any calculations performed by it, all amounts received by it and all payments made by it in such capacity.

11.4 No Implied Duties

The duties and obligations of the Reservoir Trustee in its capacity as such shall be determined solely by the express provisions of this Trust Deed and the directions of the Beneficiaries in accordance with the Payment Triggers Agreement. The Reservoir Trustee shall not be liable under this Trust Deed except for the performance of such duties and obligations as are specifically set out in this Trust Deed. No implied covenants or obligations shall be read into this Trust Deed against the Reservoir Trustee, and the permissible right of the Reservoir Trustee to do things set out in this Trust Deed shall not be construed as a duty. The Reservoir Trustee has no rights, powers or obligations under the Payment Triggers Agreement.

11.5 [No Liability

The Reservoir Trustee shall not be liable to the Beneficiaries, in the absence of wilful default, negligence or breach of the terms of this Trust Deed, in respect of any loss or damage which arises out of the exercise or attempted or purported exercise or failure to exercise any of its powers or duties.]

11.6 [Indemnity

[*Trustee protection provisions (11.5 and 11.6) to be reviewed as part of Reservoir Trustee appointment process.*]]

12. RESIGNATION AND REPLACEMENT OF RESERVOIR TRUSTEE

12.1 Appointment and/or replacement of new Reservoir Trustee

The Bank and NWPTL may jointly by deed appoint a new Reservoir Trustee or replace an existing Reservoir Trustee with a new Reservoir Trustee.

The Bank and NWPTL agree that [●] is the first Reservoir Trustee.

No Beneficiary shall at any time otherwise remove or purport to remove and/or replace the Reservoir Trustee as trustee of the trusts set out in this Trust Deed except as agreed in writing by the other Beneficiary.

12.2 Resignation of Reservoir Trustee

It may be that the Reservoir Trustee from time to time is unwilling or unable to continue to act as the Reservoir Trustee. If so, the Reservoir Trustee may resign as Reservoir Trustee by serving at least three months' written notice to the Bank and NWPTL to that effect (or such shorter period as the Beneficiaries may agree). The Reservoir Trustee so resigning shall be deemed to have resigned on the expiry of the period of notice specified in the written notice or such earlier date as the Bank and NWPTL may determine. Upon the resignation of the Reservoir Trustee pursuant to this Clause 12.2, the Beneficiaries shall appoint a successor trustee under Clause 12.1.

The Reservoir Trustee shall have no power to retire or appoint any additional trustee under the Trustee Act 1925 or otherwise.

13. COSTS AND EXPENSES OF THE RESERVOIR TRUSTEE

(a) The Reservoir Trustee shall be entitled to charge and be remunerated for the work undertaken by it as trustee of the trusts created by this Trust Deed.

(b) The Reservoir Trustee shall be entitled to recover any of its reasonable costs, fees and expenses (including any taxes) from the Trust Property.

14. CHARGE ON ASSETS

The Reservoir Trustee may not mortgage, charge, pledge or give any right of recourse against all or part of the Trust Property without the prior written agreement of the Beneficiaries.

15. NO PARTNERSHIP OR AGENCY

Nothing in this Trust Deed shall be taken to constitute or create a partnership between any of the parties to this Trust Deed or make or appoint the Beneficiaries the agent of the Reservoir Trustee (or vice versa).

16. FURTHER ASSURANCES

The parties agree that they will co-operate fully to do all such further acts and things and execute any further documents as may be necessary or desirable to give full effect to the arrangements contemplated by this Trust Deed.

17. VARIATION

Any variation of this Trust Deed shall not be binding on the parties unless set out in writing, expressed to vary this Trust Deed, and signed by authorised representatives of each of the Beneficiaries.

The Beneficiaries undertake to give notice of any such variation to the Reservoir Trustee. In the event of the Reservoir Trustee objecting to any such variation, the variation shall not take effect until four months after the date the notice is given to the Reservoir Trustee or such earlier date on which the resignation of the Reservoir Trustee under Clause 12.2 takes effect.

If any party or parties notify the other parties or party that any proposed amendment is required by reason of legal or regulatory requirements applicable to it, the other party or parties will not unreasonably withhold or delay consent to such amendment.

18. ENTIRE AGREEMENT

This Trust Deed contains a final and complete integration of all prior expressions by the parties with respect to the trusts constituted by this Trust Deed and, together with the Payment Triggers Agreement and [*Note: refer to other relevant documents as necessary*] constitutes the entire agreement between the parties with respect to those trusts.

19. COUNTERPARTS

This Trust Deed may be executed in any number of counterparts, all of which, taken together, shall constitute one and the same agreement, and any party (including any duly authorised representative of a party) may enter into this Trust Deed by executing a counterpart.

20. SEVERABILITY

Where any provision in or obligation under this Trust Deed shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations under this Trust Deed, or of such provision or obligation in any other jurisdiction, shall not be affected or impaired thereby.

21. EXCLUSION OF THIRD PARTY RIGHTS

A person who is not a party to this Trust Deed may not enforce any of its terms under the Contracts (Rights of Third Parties) Act 1999, but this shall not affect any right or remedy of a third party which exists or is available apart from that Act.

22. GOVERNING LAW AND SUBMISSION TO JURISDICTION

(a) This Trust Deed and any non-contractual obligations arising out of or in connection with it are governed by, and shall be construed in accordance with, the laws of England and Wales.

(b) Each party agrees that the courts of England and Wales shall have exclusive jurisdiction to settle any dispute (including, without limitation, claims for set-off and counterclaim) which may arise in connection with the creation, validity, effect, interpretation or performance of, or the legal relationships established by or pursuant to this Trust Deed, and for such purposes irrevocably submits to the jurisdiction of the courts of England and Wales.

(c) Each of the parties:

(i) waives any objection to the choice of or submission to the courts of England and Wales on the grounds of *forum non conveniens* or otherwise as regards proceedings in connection with this Trust Deed; and

(ii) agrees that a judgment, declaration or order (whether interim or final) of a court of England or Wales is conclusive and binding on it and may be enforced against it in the courts of any other jurisdiction.

23. EXCLUSION OF TRUSTEE ACT 2000

The Trustee Act 2000 is hereby excluded to the maximum extent permissible, to the intent that it shall not apply to the trusts constituted by this Trust Deed and that the parties shall be in the same position as they would be had that Act not come into force.

24. NOTICES

24.1 Notice in writing

Any notice or other communication to be given under this Trust Deed must be in writing, which includes electronic mail (subject to Clause 24.2 below) and may be delivered or sent by post or electronic mail to the party to be served at its address appearing in this Trust Deed as follows, or in case of notice by electronic mail, in accordance with Clause 24.2 below:

(a) to the Reservoir Trustee at:	(b) to the Bank at:	(c) to NWPTL at:
[●]	RBS Gogarburn, Edinburgh EH12 1HQ	RBS Gogarburn, Edinburgh EH12 1HQ
	Attention: Mark Chadwick, Head of Benefits, Pensions and Wellbeing, NatWest Group	Attention: Wendy Tavendale, Scheme Secretary, NatWest Group Pension Fund

or at such other address as a party may have notified to the other parties in accordance with this Clause 24. Any notice or other document sent by post shall be sent by prepaid first class recorded delivery post.

24.2 Notice by electronic mail

Notices under this Trust Deed may be sent to a party by use of electronic mail (**e- mail**). E-mail notices shall be sent:

(a) to the Reservoir Trustee at:	(b) to the Bank at:	(c) to NWPTL at:
[●]	E-mail: [***]	E-mail: [***]

or at such other e-mail address as a party may have notified to the other parties in accordance with this Clause 24.

24.3 Deemed notice

Any notice or other formal communication shall be deemed to have been given:

(a) if delivered, at the time of delivery; or

(b) if posted, at 10.00 a.m. on the second Business Day after it was put into the post; or

(c) if sent by e-mail, upon the generation of a receipt notice by the recipient's server or, if such notice is not so generated, upon delivery to the recipient's server.

In proving service of a notice or other formal communication, it shall be sufficient to prove that delivery was made or that the envelope containing the communication was properly addressed and posted either by prepaid first class recorded delivery post or by prepaid airmail, or (as the case may be) that the e-mail was properly addressed and transmitted by the sender's server into the network and there was no apparent error in the operation of the sender's e-mail system.

24.4 Proceedings

This Clause 24 shall not apply in relation to the service of any claim form, notice, order, judgment or other document relating to or in connection with any proceedings, suit or action arising out of or in connection with this Trust Deed.

IN WITNESS of which this Trust Deed has been executed by the parties hereto as a deed which has been delivered on the date first appearing on page one.

SIGNATORIES

EXECUTED as a deed by **[●] as Reservoir Trustee** acting by two directors or a director and its secretary

……..
Director

……..
Director/Secretary

EXECUTED as a deed for and on behalf of **NATIONAL WESTMINSTER BANK PLC**

by _____ acting under a power of attorney in their favour dated _____
in the presence of:

……..
Attorney for National Westminster Bank plc

Witness's Signature: ……
Name of witness: ……
Address: ……
Occupation: ……

EXECUTED as a deed by **NATWEST PENSION TRUSTEE LIMITED** acting by two directors or a director and its secretary

……..
Director

……..
Director/Secretary

SCHEDULE 1

PAYMENT TRIGGERS AGREEMENT

PAYMENT TRIGGERS AGREEMENT

relating to the

NATWEST PENSION RESERVOIR TRUST

DATED [ ]

NATIONAL WESTMINSTER BANK PLC

and

NATWEST PENSION TRUSTEE LIMITED

ALLEN & OVERY

Allen & Overy LLP

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THIS AGREEMENT is made by way of deed on 2023

BETWEEN:

(4) **NATIONAL WESTMINSTER BANK PLC (**registered number 929027) whose registered office is at 250 Bishopsgate, London, England, EC2M 4AA (the **Bank**); and

(5) **NATWEST PENSION TRUSTEE LIMITED** (registered number 2726164) whose registered office is at 250 Bishopsgate, London, England, EC2M 4AA (**NWPTL**).

WHEREAS:

(H) The retirement benefits scheme known as the NatWest Group Pension Fund is governed by a definitive trust deed and rules dated 13 April 2021 (as amended from time to time). NWPTL is the trustee of the Main Section of the Group Fund among others. The Bank is the principal employer of the Group Fund.

(I) Under a Framework Agreement dated 28 September 2018 between the Bank and NWPTL (among others) (the **Framework Agreement)** the Bank agreed to pay to the Main Section a proportion of any amounts to be distributed to the NatWest Group plc shareholders (ordinary or special dividends or share buy-backs) subject to agreed caps (a **Distribution Linked Contribution**).

(J) The Bank and NWPTL anticipate that a Distribution Linked Contribution of approximately up to GBP 471,100,000 will become payable to the Main Section in 2023. The Bank and NWPTL have amended the Framework Agreement such that the Distribution Linked Contribution (or any other Distribution Linked Contributions payable in the future which fall under the terms of the Framework Agreement) will instead be payable to the trustee of the NatWest Pension Reservoir Trust to be established following the date of this Agreement to be held in accordance with the trust deed of the NatWest Pension Reservoir Trust and this Agreement.

(K) As soon as reasonably practicable after appointment of the Reservoir Trustee and execution of the trust deed of the NatWest Pension Reservoir Trust, the Bank will pay a nominal cash sum of GBP 100 to the Reservoir Trustee to establish the NatWest Pension Reservoir Trust.

(L) The Bank is entering into this Agreement with NWPTL (the **Payment Triggers Agreement**) under which the parties have agreed that their respective absolute beneficial interests from time to time in the NatWest Pension Reservoir Trust and payments out of it will be contractually determined.

(M) It is the intention of the parties that this Payment Triggers Agreement be executed as a deed.

THIS DEED WITNESSES as follows:

1. INTERPRETATION

1.1 In this Agreement:

Agreed Person has the meaning set out in Clause 6.12(b);

Annual Accounts means the audited accounts for the Main Section as required under Section 41 of the Pensions Act 1995 and as included in an annual report in respect of the Group Fund prepared in accordance with the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013;

APeCs has the meaning set out in the Rules;

Bank Final Payment means an amount equal to the lower of:

(a) the minimum amount by which the RTA must be reduced such that the Bank Final Trigger would no longer be satisfied as at the Final Test Date had the payment been made on that date; and

(b) the RTA at the relevant Payment Date;

Bank Final Trigger has the meaning set out in Clause 6;

Bank Payment means an amount equal to the lower of:

(a) the minimum amount by which the RTA must be reduced such that the Bank Trigger would no longer be satisfied as at the relevant Test Date had the payment been made on that date; and

(b) the RTA at the relevant Payment Date;

Bank Share means a beneficial interest in 100% of the Trust Property less the NWPTL Share from time to time as determined by this Payment Triggers Agreement;

Bank Trigger has the meaning set out in Clause 3;

Business Day means a day (other than a Saturday or Sunday) on which banks are generally open in London for normal business;

BuyinA means the asset value of all Buy-in Contracts held by NWPTL in respect of the Main Section (if any), which will be valued in a manner consistent with the value placed on BuyinL;

BuyinL means the value of the liabilities of the Main Section using (as appropriate and unless NWPTL, after consulting with the Bank, instructs otherwise) roll-forward estimates from the most recently competed actuarial valuation of the Group Fund under Part 3 of the Pensions Act 2004 covered by all Buy-in Contracts held by NWPTL in respect of the Main Section (if any) as valued by the Scheme Actuary on the SSL Basis, but excluding for this purpose any value for expenses calculated in accordance with the Expense Reserve in relation to those liabilities;

Buy-in Buffer means the buy-in buffer used to calculate the Payment Triggers which shall be 5% of BuyinL unless otherwise agreed by the Bank and NWPTL (and subject to Clause 8);

Buy-in Contract means an insurance policy purchased by NWPTL which provides for amounts in respect of certain specified defined benefit liabilities of the Main Section to be payable to NWPTL by an insurance company;

Direct Contribution Obligation means an agreement or deed entered into between the Bank and NWPTL in relation to the payment of an amount by the Bank to the Main Section which the parties agree is a Direct Contribution Obligation for the purposes of this Payment Triggers Agreement;

Dispute has the meaning set out in Clause 7.2;

Expense Reserve means the sum of the following elements:

(a) 3% of SSL up to GBP 50,000,000, 2% of SSL between GBP 50,000,000 and GBP 100,000,000, and 1% of SSL in excess of GBP 100,000,000, where SSL for this purpose excludes any value for expenses calculated in accordance with the Expense Reserve; plus

(b) GBP 1,000 in respect of each Non-Pensioner Member; plus

(c) in respect of each Main Section Pensioner and each Main Section Ex-Spouse Pensioner:

(i) GBP 900 where the Member is under age 60;

(ii) GBP 800 where the Member is age 60 to 69;

(iii) GBP 600 where the Member is age 70 to 79; and

(iv) GBP 500 where the Member is age 80 or older,

or such other amount as agreed by the Bank and NWPTL from time to time;

Ex-Spouse Pensioner has the meaning set out in the Rules;

Final Test Date means 31 December 2035 or such other date as NWPTL and the Bank may agree;

FSAL means either:

(a) if at the relevant Test Date or Final Test Date no future service contributions are payable under the Schedule of Contributions, the actuarial value of future service accrual in the Main Section at the relevant Test Date or Final Test Date calculated by the Scheme Actuary on the SSL Basis in the context of the membership of the Main Section; or

(b) if at the relevant Test Date or Final Test Date, future service contributions are payable under the Schedule of Contributions, nil;

Group Fund means the NatWest Group Pension Fund;

Investment Principles has the meaning set out in Clause 9.1;

Main Section means the Main Section (as defined in the Rules) of the Group Fund;

Member has the meaning set out in the Rules;

NatWest Pension Reservoir Trust means the trust to be established by a trust deed between the Bank and NWPTL (as beneficiaries) and a trustee to be selected and appointed by the Bank and NWPTL as Reservoir Trustee, which trust deed shall be materially in the form which is attached at Appendix 1 or such other form as the parties agree, acting reasonably;

Non-Pensioner Member means a Member of the Main Section who is not a Pensioner or an Ex-Spouse Pensioner;

NWPTL Final Payment means an amount equal to the lower of:

(a) the minimum amount which must be paid from the RTA to the Main Section such that the NWPTL Final Trigger would no longer be satisfied as at the Final Test Date had that amount been held in the Main Section on that date; and

(b) the RTA at the relevant Payment Date;

NWPTL Final Trigger has the meaning set out in Clause 6;

NWPTL Payment means an amount equal to the lower of:

(a) the minimum amount which must be paid from the RTA to the Main Section such that the NWPTL Trigger would no longer be satisfied as at the relevant Test Date had that amount been held in the Main Section on that date; and

(b) the RTA at the relevant Payment Date;

NWPTL Share means a beneficial interest in such amount of the Trust Property from time to time as may be determined by this Payment Triggers Agreement;

NWPTL Trigger has the meaning set out in Clause 3;

Payment Date means the date on which the amount of any payment is finally determined in accordance with Clause 5.6 or Clause 6.10, as appropriate;

Payment Triggers means each of the NWPTL Trigger, Bank Trigger, NWPTL Final Trigger and Bank Final Trigger;

Pensioner has the meaning set out in the Rules;

ResA means the value of the assets held by NWPTL under the Main Section as stated in the Annual Accounts as at the relevant Test Date less the value stated in that Annual Accounts of any Buy-in Contract but including contributions made in the circumstances described in Clause 11.2 which are paid to the Main Section between the relevant Test Date and the date NWPTL notifies the Bank of the outcome of the calculation for the purposes of the relevant Payment Trigger;

Reservoir Trustee means the trustee of the NatWest Pension Reservoir Trust from time to time;

ResL means the value of the accrued liabilities under the Main Section using (as appropriate and unless NWPTL, after consulting with the Bank, instructs otherwise) roll-forward estimates from the most recently competed actuarial valuation of the Group Fund under Part 3 of the Pensions Act 2004 calculated by the Scheme Actuary on the SSL Basis, excluding any liabilities valued in the calculation of BuyinL;

ResTPL means the value of the accrued liabilities under the Main Section using (as appropriate and unless NWPTL, after consulting with the Bank, instructs otherwise) roll-forward estimates from the most recently competed actuarial valuation of the Group Fund under Part 3 of the Pensions Act 2004 calculated by the Scheme Actuary on a technical provisions basis (as defined under the Statement of Funding Principles), excluding any liabilities valued in the calculation of BuyinL;

RPI means the index of retail prices published by the Office of National Statistics, or any other suitable cost of living index selected by NWPTL subject to the Bank's consent (not to be unreasonably withheld);

RTA means the value of the assets in the NatWest Pension Reservoir Trust as at the relevant Test Date, Final Test Date, or Payment Date (as appropriate) [less an amount equal to any Tax Liability that would arise (or a reasonable estimate of such Tax Liability at the relevant Test Date or Final Test Date) against the Reservoir Trustee or the Trust Property as a result of or in connection with the distribution of the assets in the NatWest Pension Reservoir Trust to any Beneficiary] *[Note: tax provisions to be considered at Phase 2.]*;

Rules means the definitive trust deed and rules dated 13 April 2021 or such replacement trust deed and rules which govern the Main Section from time to time;

Schedule of Contributions means the schedule of contributions in place in respect of the Main Section in force from time to time in accordance with Part 3 of the Pensions Act 2004;

Scheme Actuary means the individual appointed by NWPTL from time to time as actuary for the Group Fund for the purposes of Section 47 of the Pensions Act 1995;

Section 75 Debt means *[Note: wording to be added, where appropriate, to reflect clause 4 of the Framework Agreement.];*

SSL means the value of the accrued liabilities of the Main Section calculated on the SSL Basis;

SSL Basis means the actuarial calculation basis for the Main Section's technical provisions as defined under the Statement of Funding Principles but using a discount rate of the better (higher) of spot gilt and swap yields at each yearly tenor plus a 0% spread and using an RPI inflation assumption of the better (lower) of spot gilt RPI breakeven and swap RPI at each yearly tenor and incorporating a value for expenses calculated in accordance with the Expense Reserve or such other actuarial calculation basis as the Bank and NWPTL may agree from time to time to be the SSL Basis for the purposes of this Payment Triggers Agreement;

Statement of Funding Principles means the statement of funding principles in respect of the Main Section in force at the time of the relevant calculation under this Agreement in accordance with Part 3 of the Pensions Act 2004;

Test Date means the last day of each scheme year (which lasts from 1 January to 31 December) or such other date as is stated to be a Test Date under the terms of this Payment Triggers Agreement;

TP Liabilities means the value of the liabilities of the Main Section calculated on a technical provisions basis (as defined under the Statement of Funding Principles); and

Trust Property means the assets held from time to time by the Reservoir Trustee as trustee of the NatWest Pension Reservoir Trust, including the amount of any Distribution Linked Contributions paid to the Reservoir Trustee together with the GBP 100 nominal cash sum paid by the Bank to establish the NatWest Pension Reservoir Trust and such other amounts as the Bank and NWPTL may agree shall be paid to the Reservoir Trustee including the income and gains arising on the Trust Property less any deductions or payments permitted by the terms of the NatWest Pension Reservoir Trust.

1.2 In this Agreement any reference, express or implied, to an enactment (which includes any legislation in any jurisdiction) includes:

(a) that enactment as amended, extended or applied by or under any other enactment (before, on or after execution of this agreement);

(b) any enactment which that enactment re-enacts (with or without modification); and

(c) any subordinate legislation made (before, on or after execution of this agreement) under that enactment, including (where applicable) that enactment as amended, extended or applied as described in paragraph (a) above, or under any enactment which it re-enacts as described in paragraph (b) above.

2. BENEFICIAL INTEREST IN THE NATWEST PENSION RESERVOIR TRUST

2.1 The Bank and NWPTL agree that unless and until a NWPTL Payment or NWPTL Final Payment arises, the Bank Share (subject to Clause 2.5) shall be 100% of the Trust Property.

2.2 If a NWPTL Payment or NWPTL Final Payment is calculated by NWPTL as having arisen under Clause 5 or Clause 6 and the amount of that payment is either agreed with the Bank under Clause 5 or Clause 6 or determined under Clause 7, the Bank and NWPTL agree that NWPTL has (subject

to Clause 2.5) sole beneficial interest in such amount of the Trust Property as equals such NWPTL Payment or NWPTL Final Payment. The Bank and/or NWPTL shall direct the Reservoir Trustee to transfer the beneficial interest in the Trust Property to NWPTL.

2.3 Once any payment is then made to NWPTL under the relevant provisions of this Agreement, the amount of the Trust Property attributable to the Bank Share and the NWPTL Share shall be adjusted to reflect the payment made.

2.4 If a Bank Payment or Bank Final Payment is calculated by NWPTL as having arisen under Clause 5 or Clause 6 and the amount of that payment is either agreed with the Bank under Clause 5 or Clause 6 or determined under Clause 7, then the amount of the Trust Property attributable to the Bank Share will be adjusted to reflect the payment made.

2.5 The Bank and NWPTL each covenant that they will not direct the Reservoir Trustee to make any adjustment to the attribution of the Trust Property (in respect of the Bank Share or NWPTL Share as appropriate) or to make a payment out of the Trust Property otherwise than in accordance with this Payment Triggers Agreement.

3. NWPTL AND BANK TRIGGERS APPLYING BEFORE FINAL TEST DATE

3.1 A NWPTL Trigger applies at a Test Date if:

ResA + BuyinA < ResTPL + BuyinL + FSAL

3.2 A Bank Trigger applies at a Test Date if:

(i) 90% or more of the SSL (excluding any value for expenses calculated in accordance with the Expense Reserve) are covered by Buy-in Contracts; and

(ii) ResA + BuyinA + RTA > ResL + BuyinL+ Buy-in Buffer + FSAL

4. ANNUAL TEST DATE REVIEW BEFORE FINAL TEST DATE

4.1 The first Test Date shall be 31 December 2023 (being the last day of the scheme year 1 January 2023 to 31 December 2023). Starting from the first Test Date until 31 December 2034 (or such later date as NWPTL and the Bank may agree), each year NWPTL will determine whether either a NWPTL Trigger or a Bank Trigger applies as at the most recent Test Date.

4.2 NWPTL will complete their determination under Clause 4.1 within 60 Business Days of the signing of the Annual Accounts as at the relevant Test Date.

4.3 NWPTL will notify the Bank of the outcome of their determination under Clause 4.2 and will provide the Bank with sufficient information to enable the Bank to understand the approach taken and assess whether NWPTL's determinations have been made in accordance with Clause 3.

4.4 If the Bank does not raise a Dispute in relation to any part of NWPTL's determination under this Clause 4 within 30 Business Days of receipt, the Bank will be deemed to have accepted it. If the Bank does raise a Dispute to the determination within that period, then the dispute resolution process set out in Clause 7 will apply and the determination shall be concluded in accordance with that Clause.

5. CALCULATION OF PAYMENTS TO NWPTL OR BANK BEFORE FINAL TEST DATE

5.1 It may be that the NWPTL Trigger is determined under Clause 4 (or Clause 7, as applicable) to have been met at two consecutive Test Dates. If so, NWPTL will calculate the NWPTL Payment

by reference to the most recent Test Date within 60 Business Days of the signing of the Annual Accounts applicable to that Test Date (or if later, the date on which the NWPTL Trigger calculation is determined).

5.2 It may be that the Bank Trigger is determined under Clause 4 (or Clause 7, as applicable) to have been met at two consecutive Test Dates. If so, NWPTL will calculate the Bank Payment by reference to the most recent Test Date within 60 Business Days of the signing of the Annual Accounts applicable to that Test Date (or, if later, the date on which the Bank Trigger calculation is determined).

5.3 It may be that both the NWPTL Trigger and the Bank Trigger are determined under Clause 4 (or Clause 7, as applicable) to have been met at the relevant Test Date. If so, NWPTL will carry out the following steps (in this order):

(a) calculate the NWPTL Payment by reference to the relevant Test Date; and

(b) consider if the Bank Trigger would apply on the relevant Test Date after accounting for the applicable NWPTL Payment. If so, NWPTL will calculate the Bank Payment by reference to the relevant Test Date, but accounting for the NWPTL Payment as if it had already been made.

These calculations shall be carried out within 60 Business Days of the signing of the Annual Accounts applicable to the Test Date (or, if later, the date on which both the NWPTL Trigger and the Bank Trigger calculations are determined).

5.4 NWPTL will notify the Bank of the outcome of their calculations and will provide the Bank with sufficient information to enable the Bank to understand the approach taken at the same time as NWPTL notifies the Bank of their determination under Clause 4.3 above.

5.5 If the Bank does not raise a Dispute in relation to any part of NWPTL's determination under this Clause 5 within 30 Business Days of receipt, the Bank will be deemed to have accepted it. If the Bank does raise a Dispute to the determination within that period, then the dispute resolution process set out in Clause 7 will apply and the determination shall be concluded in accordance with that Clause.

5.6 The amount of any NWPTL Payment or Bank Payment under this Clause 5 will be finally determined on the earlier of:

(a) the date the Bank notifies NWPTL that it agrees the calculation;

(b) where paragraph (a) above does not apply, but the Bank does not raise a Dispute relating to NWPTL's calculation within 30 Business Days of receipt, at close of business on that 30th Business Day; or

(c) the date on which the calculation is determined in accordance with the dispute resolution process set out in Clause 7.

5.7 If either or both a NWPTL Payment or Bank Payment has been finally determined, NWPTL and the Bank hereby agree to notify the Reservoir Trustee of the NWPTL Payment and/or Bank Payment in the form attached at Appendix 2 (or such other form as the Bank and NWPTL agree). For the avoidance of doubt, the notification to the Reservoir Trustee in the form attached at Appendix 2 may be signed and sent to the Reservoir Trustee by either or both of NWPTL and the Bank.

5.8 For the avoidance of doubt, a notification will not be issued to the Reservoir Trustee by the Beneficiaries and the Reservoir Trustee will not make any payment to NWPTL or the Bank while a Dispute regarding any of NWPTL's determinations is ongoing.

6. CALCULATION OF FINAL PAYMENTS TO NWPTL OR BANK

6.1 After the Final Test Date, NWPTL will determine whether either a NWPTL Final Trigger or a Bank Final Trigger applies as at the Final Test Date.

6.2 NWPTL will complete their determination under Clause 6.1 within 60 Business Days of the signing of the Annual Accounts as at the Final Test Date.

6.3 A NWPTL Final Trigger applies at the Final Test Date if:

ResA + BuyinA < ResL + BuyinL + FSAL

6.4 A Bank Final Trigger applies at the Final Test Date if:

ResA + BuyinA + RTA > ResL + BuyinL+ Buy-in Buffer + FSAL

6.5 It may be that the NWPTL Final Trigger is determined under Clause 6.3 (or Clause 7, as applicable) to have been met at the Final Test Date. If so, subject to Clause 6.7, NWPTL will calculate the NWPTL Final Payment by reference to the Final Test Date within 60 Business Days of the signing of the Annual Accounts applicable to the Final Test Date (or, if later, the date on which the NWPTL Trigger calculation is determined).

6.6 It may be that the Bank Final Trigger is determined under Clause 6.4 (or Clause 7, as applicable) to have been met at the Final Test Date. If so, subject to Clause 6.7, NWPTL will calculate the Bank Final Payment by reference to the Final Test Date within 60 Business Days of the signing of the Annual Accounts applicable to the Final Test Date (or, if later, the date on which the Bank Final Trigger calculation is determined).

6.7 It may be that both the NWPTL Final Trigger and the Bank Final Trigger are determined under Clause 6.3 and Clause 6.4 (or Clause 7, as applicable) to have been met at the Final Test Date. If so, NWPTL will carry out the following steps (in this order):

(a) calculate the NWPTL Final Payment by reference to the Final Test Date; and

(b) consider if the Bank Final Trigger would apply on the Final Test Date after accounting for the applicable NWPTL Final Payment. If so, NWPTL will calculate the Bank Final Payment by reference to the Final Test Date, but accounting for the NWPTL Final Payment as if it had already been made.

These calculations shall be carried out within 60 Business Days of the signing of the Annual Accounts applicable to the Final Test Date (or, if later, the date on which both the NWPTL Final Trigger and the Bank Final Trigger calculations are determined).

6.8 NWPTL will notify the Bank of the outcome of their calculations and will provide the Bank with sufficient information to enable the Bank to understand the approach taken in respect of each of the calculations under this Clause 6.

6.9 If the Bank does not raise a Dispute in relation to any part of NWPTL's determination under this Clause 6 within 30 Business Days of receipt, the Bank will be deemed to have accepted it. If the Bank does raise a Dispute to the determination within that period, then the dispute resolution

process set out in Clause 7 will apply and the determination shall be concluded in accordance with that Clause.

6.10 The amount of any NWPTL Payment or Bank Payment under this Clause 6 will be finally determined on the earlier of:

(a) the date the Bank notifies NWPTL that it agrees the calculation;

(b) where paragraph (a)above does not apply, but the Bank does not raise a Dispute in relation to NWPTL's calculation within 30 Business Days of receipt, at close of business on that 30th Business Day; or

(c) the date on which the calculation is determined in accordance with the dispute resolution process set out in Clause 7.

6.11 If either or both a NWPTL Final Payment or a Bank Final Payment has been finally determined, NWPTL and the Bank hereby agree to notify the Reservoir Trustee of the NWPTL Final Payment and/or Bank Final Payment in the form attached at Appendix 2 (or such other form as the Bank and NWPTL agree). For the avoidance of doubt, the notification to the Reservoir Trustee in the form attached at Appendix 2 may be signed and sent to the Reservoir Trustee by either or both of NWPTL and the Bank.

6.12 It may be that neither a NWPTL Final Trigger nor a Bank Final Trigger applies at the Final Test Date or there is remaining Trust Property after the payment of a NWPTL Final Payment or a Bank Final Payment. If so, the following will apply:

(a) NWPTL and the Bank will seek in good faith to agree whether any further payments will be made from the NatWest Pension Reservoir Trust to NWPTL and/or the Bank (or make any other arrangements) and will notify the Reservoir Trustee accordingly.

(b) In the event that NWPTL and the Bank have not reached agreement by the date which is 18 months after the Final Test Date (unless they agree that a different date shall apply), either Party may refer to a King's Counsel agreed between them (or, in the event of their failure to agree, nominated by the Chairman of the General Council of the Bar in England and Wales) (the **Agreed Person**) the question as to whether some or all of the remaining Trust Property should be paid to NWPTL and the Agreed Person's decision on that question will be final.

(c) The Agreed Person will be instructed that, in making their decision, the Agreed Person must consider whether it is appropriate for NWPTL to receive payment of some or all of the remaining Trust Property, having regard (to the extent the Agreed Person considers appropriate) to the economic and other relevant circumstances at the time of their decision, including, without limitation, the funding position of the Main Section, the rights of beneficiaries under the Main Section, legal and regulatory requirements applicable to defined benefit occupational pension schemes, prevailing actuarial practice in the United Kingdom as to the funding of such schemes, the extent to which the Main Section is reliant on the support of the Bank and its ability to provide that support and the appropriateness of any arrangements which NWPTL has adopted or proposed to adopt relating to protection from residual or unknown risks which may arise in relation to the Main Section (as well as such other matters which the Agreed Person determines to be relevant).

(d) Each Party shall be entitled to make such submissions and provide such evidence to the Agreed Person as it considers appropriate, and to comment on and respond to the other Party's submissions and evidence. The Parties will co-operate with each other and with the

Agreed Person with a view to enabling the dispute to be resolved as soon as reasonably practicable, and, where practicable and acceptable to the Agreed Person, within no more than four months of the Agreed Person being appointed.

(e) The Parties will:

(i) respond promptly to requests for information or questions from the Agreed Person and will make themselves reasonably available for any calls or meetings requested by the Agreed Person; and

(ii) instruct any other professional adviser the Agreed Person reasonably determines is required to support the decision.

(f) The costs of the Agreed Person (including the costs of instructing any other professional adviser the Agreed Person reasonably determines is required to support the decision) shall be met from the Trust Property and shall be deducted from the Trust Property before any payments are made in accordance with Clause 6.12(g) below.

(g) Following the decision of the Agreed Person, NWPTL and/ or the Bank will notify the Reservoir Trustee to allocate to the NWPTL Share the amount (if any) determined by the Agreed Person and direct the Reservoir Trustee to make a payment equal to that amount (if any) from the NatWest Pension Reservoir Trust to NWPTL and to pay the balance of the Trust Property (if any) to the Bank.

6.13 Subject to Clause 12.2, until NWPTL and the Bank reach an agreement in accordance with Clause 6.12 (or the Agreed Person has made their decision for the purposes of that Clause, if later), the parties agree that the NatWest Pension Reservoir Trust will not terminate.

6.14 For the avoidance of doubt, a notification will not be issued to the Reservoir Trustee by the Beneficiaries and the Reservoir Trustee will not make any payment to NWPTL or the Bank while a Dispute regarding any of NWPTL's (or, if Clause 7.1 applies, the Bank's) determinations is ongoing.

7. BANK STEP IN AND DISPUTE RESOLUTION

7.1 It may be that NWPTL does not complete their determinations and/or calculations within 60 Business Days in accordance with Clauses 4, 5, or 6 and such determinations and/or calculations remain outstanding after 30 Business Days. If so, the Bank may instead complete the determinations and/or calculations in accordance with Clauses 4, 5, or 6 and obligations as to notifications and acceptance of outcomes shall apply as if the Bank were NWPTL and vice versa.

7.2 Where a determination or calculation is carried out by one party under this Agreement but the other party believes that the calculation contains an error, is not consistent with the terms of this Agreement or is not reasonable, that other party may raise a dispute in relation to that calculation (a **Dispute**). For the avoidance of doubt, a Dispute cannot be raised in relation to any aspect of a determination or calculation which relates to an actuarial or other assumption or method which is consistent with this Agreement and which is one of a number of reasonable assumptions or methods which could be used in the relevant circumstances, but where the other party wishes to use an alternative assumption or method. *[Note: Wording to be added, where appropriate, to reflect clauses 3 and 4 of the Framework Agreement.]*

7.3 If either party raises a Dispute relating to the other's determinations or calculations as required by this Payment Triggers Agreement, the Bank and NWPTL will work together in good faith to resolve the Dispute.

7.4 If, however, agreement in respect of the Dispute has not been reached within 60 Business Days of notification of that Dispute by the disputing party to the other party, the Bank will refer the matter to an independent actuary agreed between the Bank and NWPTL (or, in the event of their failure to agree, nominated by the President for the time being of the Institute and Faculty of Actuaries) whose decision as to such determination or calculation shall be final. The parties shall co-operate with the independent actuary with a view to reaching a determination as soon as reasonably practicable (including instructing any other professional adviser the independent actuary determines is required to support the determination).

8. BUY-IN BUFFER

The Bank and NWPTL shall work together to agree an appropriate level of Buy-in Buffer in conjunction with the actuarial valuation as at 31 December 2026 for the Main Section and alongside each successive triennial valuation, taking account of any changes to the Main Section's residual risks at that time. For the avoidance of doubt, this shall not restrict NWPTL's ability to determine any other buffer within the Main Section.

9. INVESTMENT OF TRUST PROPERTY

9.1 Prior to payment of the first Distribution Linked Contribution by the Bank into the NatWest Pension Reservoir Trust, the Bank and NWPTL will use all reasonable endeavours to agree and document a set of investment principles to govern the investment of the assets of the NatWest Pension Reservoir Trust (the Investment Principles). Those Investment Principles shall set out agreement on the types of assets the Trust Property is to be invested in, the approximate split between those types of assets and details of any institution or counterparty which, for regulatory purposes, the Bank is not able to permit the Trust Property to be invested in.

9.2 NWPTL and the Bank agree to jointly direct the Reservoir Trustee, in accordance with the terms of the Reservoir Trust, as to the asset classes in which the Trust Property can be invested on a basis which is consistent with the Investment Principles.

9.3 It is acknowledged that under the terms of the Reservoir Trust, NWPTL has the power to direct the Reservoir Trustee as to the investment of the Trust Property within the asset classes set out or otherwise provided for under the Reservoir Trust. NWPTL shall not give any such direction to the Reservoir Trustee in relation to the Trust Property where that direction would be inconsistent with the Investment Principles prevailing at the relevant time.

9.4 The Bank and NWPTL will keep the Investment Principles under regular review and can amend the Investment Principles by agreement at any time. In the event that the Bank and NWPTL agree any change to the Investment Principles, NWPTL shall as soon as reasonably practicable thereafter give such direction to the Reservoir Trustee as it considers appropriate (if any) in order to ensure that the investment of the Trust Property is in line with the amended Investment Principles.

9.5 Pending agreement of the Investment Principles, or where any Trust Property is not covered by the Investment Principles, the Trust Property shall be held in a bank account set up by the Reservoir Trustee.

10. SET OFF AGAINST A DIRECT CONTRIBUTION OBLIGATION

10.1 It may be that a NWPTL Payment or NWPTL Final Payment has been accepted (or otherwise determined in accordance with the dispute resolution process set out in Clause 7) but NWPTL and the Bank have agreed a Direct Contribution Obligation before the payment notification to the Reservoir Trustee in accordance with Clause 5.7 or Clause 6.11 has been made. If so, the NWPTL

Payment or NWPTL Final Payment notified to the Reservoir Trustee will be the amount accepted or otherwise determined less the amount of the Direct Contribution Obligation.

10.2 Where Clause 10.1 applies, the Bank and/or NWPTL hereby agree to notify the Reservoir Trustee in the form attached at Appendix 2 (or such other form as the Bank and NWPTL agree) to make a payment to the Bank from the Trust Property of an amount equal to the Direct Contribution Obligation. For the avoidance of doubt, the notification to the Reservoir Trustee in the form attached at Appendix 2 may be signed and sent to the Reservoir Trustee by either or both of NWPTL and the Bank.

11. NO DOUBLE COUNTING IN RESPECT OF DEFICIT AND OTHER CONTRIBUTIONS UNDER A SCHEDULE OF CONTRIBUTIONS

11.1 NWPTL and the Bank agree that the intention is that any deficit under the Main Section in respect of its TP Liabilities will be made good in due course by any NWPTL Payments or NWPTL Final Payments under this Payment Triggers Agreement.

11.2 However, notwithstanding the intention under Clause 11.1, if the Bank makes a contribution to the Main Section in accordance with a Schedule of Contributions the Bank and NWPTL agree that the Bank and/or NWPTL may direct the Reservoir Trustee in the form attached at Appendix 2 (or such other form as the Bank and NWPTL agree) to make a payment to the Bank of an amount equal to any such Bank contribution then made to the Main Section. The amount of the Trust Property attributable to the Bank Share will be adjusted accordingly.

11.3 However, unless otherwise agreed between the Bank and NWPTL, Clause 11.2 shall not include any payment to the Main Section in respect of expenses, future service, APeCs and augmentations (in accordance with a Schedule of Contributions) and any mitigation payment in relation to any covenant or other event relating to the Bank or any payment under the terms of any investment or service contract between the Bank and NWPTL.

11.4 Where under this Agreement a sum is to be paid to NWPTL calculated by reference to a Section 75 Debt NWPTL confirms that it will accept that payment in full or partial settlement (as applicable) of any actual debt due from the Bank to NWPTL in relation to the Main Section under Section 75 of the Pensions Act 1995.

12. TERMINATION

12.1 This Payment Triggers Agreement will terminate on the termination and final winding up of the NatWest Pension Reservoir Trust or on such other date as may be agreed by NWPTL and the Bank.

12.2 It may that the Main Section is terminated and commences to wind up in accordance with the Rules or under any applicable statutory provision (including, without limitation, where the Pensions Regulator makes an order to wind up the Main Section under Section 11 of the Pensions Act 1995). If so, subject to Clauses 12.3 and 12.4, but notwithstanding any other provision of this Payment Triggers Agreement, NWPTL and the Bank hereby agree that the NWPTL Share will be adjusted as at the date of termination to equal the amount of any Section 75 Debt as at that date (or as at such later date as such Section 75 Debt actually arises). Once any such Section 75 Debt is calculated, the Bank and/or NWPTL may direct the Reservoir Trustee to pay all remaining Trust Property to the Bank or NWPTL in respect of the Bank Share and NWPTL Share as appropriate. The Bank and NWPTL agree to notify the Reservoir Trustee accordingly in the form attached at Appendix 2 (or such other form as the Bank and NWPTL agree).

12.3 Clause 12.2 shall not apply where the termination and winding up commences by reason of a "relevant event" occurring in relation to the Bank.

12.4 This Clause applies where:

(a) the termination and winding up of the Main Section commences other than by reason of a "relevant event" occurring in relation to the Bank; and

(b) a "relevant event" occurs in relation to the Bank prior to any Section 75 Debt becoming due from the Bank by reason of the events referred to at (a).

If this applies, then Clause 12.2 shall cease to have effect and the Parties shall take steps to undo the adjustment of the NWPTL Share described in Clause 12.2.

12.5 "Relevant event" has the meaning applicable for the purposes of Section 75 of the Pensions Act 1995.

[Note: Once language has been agreed to give effect to Clause 4 of the Framework Agreement, it may be necessary to revisit Clauses 12.2 to 12.5 to clarify their interaction.]

13. BANK INSOLVENCY

[Note: wording to be added, where appropriate, to reflect clause 4 of the Framework Agreement.]

14. TAX INDEMNITY

[Note: wording to be added, where appropriate, to reflect clause 3 of the Framework Agreement.]

15. TAX GROSS-UP

[Note: wording to be added, where appropriate, to reflect clause 3 of the Framework Agreement.]

16. ASSIGNMENT

Neither party may, without the prior written consent of the other party, assign, grant any security interest over, hold on trust or otherwise transfer the benefit of this Payment Triggers Agreement.

17. ENTIRE AGREEMENT

This Payment Triggers Agreement and the NatWest Pension Reservoir Trust [*Note: consider other documents to refer to*] contain the entire agreement between the parties relating to the transactions contemplated by this Agreement and supersede all previous agreements between the parties relating to these. Except as required by statute, no terms shall be implied (whether by custom, usage or otherwise) into this Agreement.

18. FURTHER ASSURANCES

The parties agree that they will co-operate fully to do all such further acts and things and execute any further documents as may be necessary or desirable to give full effect to the arrangements contemplated by this Payment Triggers Agreement.

19. SEVERABILITY

Where any provision in or obligation under this Payment Triggers Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining

provisions or obligations under this Agreement, or of such provision or obligation in any other jurisdiction, shall not be affected or impaired thereby.

20. COUNTERPARTS

This Payment Triggers Agreement may be executed in any number of counterparts, all of which, taken together, shall constitute one and the same agreement, and any party (including any duly authorised representative of a party) may enter into this Agreement by executing a counterpart.

21. THIRD PARTY RIGHTS

A person who is not a party to this Payment Triggers Agreement may not enforce any of its terms under the Contracts (Rights of Third Parties) Act 1999, but this shall not affect any right or remedy of a third party which exists or is available apart from that Act.

22. NOTICES

22.1 Any notice or other communication to be given under this Payment Triggers Agreement must be in writing (which includes electronic mail (subject to Clause 22.2 below)) and may be delivered or sent by post or electronic mail to the party to be served at its address appearing in this Agreement as follows, or in case of notice by electronic mail, in accordance with Clause 22.2 below:

(a) to the Reservoir Trustee at:	(b) to the Bank at:	(c) to NWPTL at:
[●]	RBS Gogarburn, Edinburgh EH12 1HQ	RBS Gogarburn, Edinburgh EH12 1HQ
	Attention: Mark Chadwick, Head of Benefits, Pensions and Wellbeing, NatWest Group	Attention: Wendy Tavendale, Scheme Secretary, NatWest Group Pension Fund

or at such other address as a party may have notified to the other parties in accordance with this Clause 22. Any notice or other document sent by post shall be sent by prepaid first class recorded delivery post.

22.2 Notices under this Agreement may be sent by one party to the other party by use of electronic mail (**e-mail**). E-mail notices shall be sent:

(a) to the Reservoir Trustee at:	(b) to the Bank at:	(c) to NWPTL at:
[●]	E-mail: [***]	E-mail: [***]

or at such other e-mail address as a party may have notified to the other parties in accordance with this Clause 22.

22.3 Any notice or other formal communication shall be deemed to have been given:

(a) if delivered, at the time of delivery; or

(b) if posted, at 10.00 a.m. on the second Business Day after it was put into the post; or

(c) if sent by e-mail, upon the generation of a receipt notice by the recipient's server or, if such notice is not so generated, upon delivery to the recipient's server.

22.4 In proving service of a notice or other formal communication, it shall be sufficient to prove that delivery was made or that the envelope containing the communication was properly addressed and posted either by prepaid first class recorded delivery post or by prepaid airmail, or (as the case may be) that the e-mail was properly addressed and transmitted by the sender's server into the network and there was no apparent error in the operation of the sender's e-mail system.

22.5 This Clause 22 shall not apply in relation to the service of any claim form, notice, order, judgment or other document relating to or in connection with any proceedings, suit or action arising out of or in connection with this Agreement.

23. GOVERNING LAW AND SUBMISSION TO JURISDICTION

23.1 This Payment Triggers Agreement and any non-contractual obligations arising out of or in connection with it are governed by, and shall be construed in accordance with, the laws of England and Wales.

23.2 Except where (i) either party has made a reference to a King's Counsel for the purposes of Clause 6.12 or (ii) Clause 7 applies to a Dispute, each party agrees that the courts of England and Wales shall have exclusive jurisdiction to settle any dispute (including, without limitation, claims for set-off and counterclaim) which may arise in connection with the creation, validity, effect, interpretation or performance of, or the legal relationships established by or pursuant to this Payment Triggers Agreement, and for such purposes irrevocably submits to the jurisdiction of the courts of England and Wales.

23.3 Each of the parties:

(a) waives any objection to the choice of or submission to the courts of England and Wales on the grounds of *forum non conveniens* or otherwise as regards proceedings in connection with this Payment Triggers Agreement; and

(b) agrees that a judgment, declaration or order (whether interim or final) of a court of England or Wales is conclusive and binding on it and may be enforced against it in the courts of any other jurisdiction.

24. VARIATION

Any variation of this Agreement shall not be binding on the parties unless set out in writing, expressed to vary this Payment Triggers Agreement, and signed by authorised representatives of each of the Bank and NWPTL. If any party or parties notify the other parties or party that any proposed amendment is required by reason of legal or regulatory requirements applicable to it, the other party or parties will not unreasonably withhold or delay consent to such amendment. The parties will give notice of any such variation to the Reservoir Trustee.

IN WITNESS of which this Payment Triggers Agreement has been executed as a deed and has been delivered on the date stated at the beginning of this Agreement.

SIGNATORIES

EXECUTED as a deed for and on behalf of **NATIONAL WESTMINSTER BANK PLC**	)	
by _____ acting under a power of attorney in their favour dated _____	)	…… Attorney for National Westminster Bank plc
in the presence of:	)	
Witness's Signature: …… Name of witness: …… Address: …… Occupation: ……		
EXECUTED as a deed by **NATWEST PENSION TRUSTEE LIMITED** acting by two directors or a director and its secretary	)	…… Director …… Director/Secretary

APPENDIX 2

AGREED FORM OF INSTRUCTION TO RESERVOIR TRUSTEE

To: [●] as trustee of the NatWest Pension Reservoir Trust (**Reservoir Trustee**)

[DATE]

Dear Sirs

Payment instruction in relation to the NatWest Pension Reservoir Trust (the Reservoir Trust)

We refer to the Reservoir Trust, which is governed by a trust deed dated [DATE] (the **Trust Deed**) and the Payment Triggers Agreement between National Westminster Bank Plc and NatWest Pension Trustee Limited dated [DATE] (the **Payment Triggers Agreement**). Capitalised terms defined in the Trust Deed and Payment Triggers Agreement have, unless they are expressly defined in this letter, the same meaning in this letter.

Under the Trust Deed, the Beneficiaries of the Reservoir Trust may, in accordance with the Payment Triggers Agreement, direct the Reservoir Trustee to [adjust the amount of the NWPTL Share of the Reservoir Trust and] make a payment out of the Trust Property (in respect of the Bank Share or NWPTL Share as appropriate) to the Bank or NWPTL.

Furthermore, under the Payment Triggers Agreement, if such a payment is made, the Bank and NWPTL agree that their sole beneficial interests in the Trust Property (being the values of the Bank Share and the NWPTL Share) shall be adjusted accordingly.

In accordance with the Trust Deed and the Payment Triggers Agreement, we hereby instruct you that [a NWPTL Payment/Bank Payment/NWPTL Final Payment/Bank Final Payment/any other payment agreed in accordance with the Payment Triggers Agreement] [*delete as appropriate*] has arisen in the sum of [GBP xxx].

[We instruct you to allocate the above amount to the NWPTL Share and to adjust the value of the Bank Share accordingly in respect of the Bank and NWPTL sole beneficial interests in the Trust Property.

We [also] instruct you to pay out of the Reservoir Trust the sum of GBP [●] to [NWPTL's account: account number: [●], sort code: [●], reference [●] / [the Bank's account: account no: [●], sort code: [●], reference [●] and further reflect this payment in the values of the Bank Share and NWPTL Share.

We confirm that that the amount of [the adjustment to the NWPTL Share and the amount of] the payment directed by this notice has been agreed (or deemed agreed) by the Beneficiaries or been finally determined under the dispute resolution mechanism set out in the Payment Triggers Agreement.

Yours faithfully

.....

Duly authorised signatory on behalf of NatWest Pension Trustee Limited [EITHER/OR]

.....

Duly authorised signatory on behalf of National Westminster Bank Plc

APPENDIX ONE: BUY-IN ARRANGEMENTS

[***]

APPENDIX TWO: PRINCIPLES OF INVESTMENT RISK

[***]

[***]

Exhibit 4.25

DATE: 6 FEBRUARY 2023

DEED OF AMENDMENT
TO THE 28 SEPTEMBER 2018
FRAMEWORK AGREEMENT

CMS Cameron McKenna Nabarro Olswang LLP
Cannon Place
78 Cannon Street
London EC4N 6AF
T +44 20 7367 3000
F +44 20 7367 2000
cms.law

THIS DEED is made on 6 February 2023 between:

(1) **NATIONAL WESTMINSTER BANK PLC** (registered number 929027) whose registered office is at 250 Bishopsgate, London, England, EC2M 4AA (the "**Principal Employer**"); and

(2) **NATWEST PENSION TRUSTEE LIMITED** (registered number 2726164) whose registered office is at 250 Bishopsgate, London, England, EC2M 4AA (the "**Trustee**")

INTRODUCTION

(A) This Deed is supplemental to a Framework Agreement dated 28 September 2018 made between the Principal Employer, the Trustee (formerly called RBS Pension Trustee Limited), NatWest Group plc (formerly called The Royal Bank of Scotland Group plc), NatWest Holdings Limited, The Royal Bank of Scotland plc, NatWest Markets plc, The Royal Bank of Scotland International Limited, Coutts & Company and Chartered Institute of Bankers in Scotland (the "**Framework Agreement**").

(B) The Principal Employer and the Trustee entered into non-legally binding heads of terms dated 9 January 2023 and the parties wish to amend the Framework Agreement to reflect those terms. Clause 12 of the Framework Agreement states that it may be amended by written agreement of the Principal Employer and the Trustee.

(C) The words defined in the Framework Agreement shall have the same meaning in this Deed.

OPERATIVE PROVISIONS

1. The Principal Employer and the Trustee in exercise of the powers conferred by Clause 12 of the Framework Agreement amend the Framework Agreement with effect from the date of this Deed.

2. In Clause 1 (Interpretation), the following definition shall be added between the definitions for Release Date and RBSI Transferring Members:

   *"**Reservoir Trust** means the NatWest Pension Reservoir Trust to be established by a trust deed between the Trustee and Principal Employer (as beneficiaries (or such other persons as they may agree)) and the first trustee of the Reservoir Trust under which amounts otherwise payable to the Main Section are instead held on trust (or other appropriate vehicle agreed between the Trustee and Principal Employer) on terms such that amounts may be returned to the Principal Employer (or another company in the same NatWest group of companies as the Principal Employer) or paid to the Main Section in accordance with a contractual agreement between the Trustee and Principal Employer."*

3. Delete the first two sentences of Clause 7.2 and replace with the following:

"The Bank Group and the Trustee agree that the Bank Group shall (i) pay to the Main Section (or procure payment of), or (ii) on terms agreed with the Trustee, pay into a Reservoir Trust (or procure payment of), a proportion of any amounts to be distributed to the NatWest Group plc (formerly the Royal Bank of Scotland Group plc) shareholders (ordinary or special dividends or share buy-backs). Such amounts are potentially payable for a period of up to 1 January 2040 and subject to an annual cap each calendar year in the payment to the Main Section (or, if agreed to a Reservoir Trust) of £500 million and an overall aggregate amount of £1,500 million in total."

4. Delete the heading in the third column of the table in Clause 7.2 and replace with the following:

"Amounts to be paid as contributions to the Main Section (or if agreed, to a Reservoir Trust)"

5. Insert a new sentence at the end of the second row in the third column of the table in Clause 7.2 as follows:

"To be paid no later than 90 days after any relevant distribution to shareholders is paid, unless the Trustee and the Principal Employer agree a later date."

6. Delete Clause 7.3 and replace with the following:

"For the avoidance of doubt, where the Bank Group pays any amount to the Main Section (or if agreed to a Reservoir Trust) at its discretion (i.e. in addition to the amount described in Clause 7.2 above), that amount shall count towards the expected level of £1,500 million. Further for the avoidance of doubt, where the Bank Group pays any amount to the Reservoir Trust, that amount shall count towards the £1,500 million total notwithstanding if (in accordance with the terms of the Reservoir Trust) any part of that amount is returned to the Bank Group. For the avoidance of doubt, where the Trustee has entered into documentation establishing the Reservoir Trust, it shall be deemed to have consented to the payment of amounts under this Clause 7 to the Reservoir Trust."

7. Delete Clause 7.4.

This Deed may be executed in any number of counterparts which taken together shall constitute one document, and any party may execute this Deed by signing any one or more of such counterparts.

The parties have executed this document as a deed on the date set out above.

Executed as a deed by)
NATIONAL WESTMINSTER BANK PLC)
Acting by Katie Murray, a director in the presence of:)
)

/s/ Katie Murray

/s/ Kirsty Byram
Signature of Witness
Full name: Kirsty Byram
Address: 250 Bishopsgate
London
EC2M 4AA

Executed as a deed by)
NATWEST PENSION TRUSTEE LIMITED)
on being signed by:)
Joanna Matthews)
and Wendy Tavendale)

/s/ Joanna Matthews
Director

/s/ Wendy Tavendale
Director/Secretary

Exhibit 8.1

The principal subsidiaries of NatWest Group plc are:

	Nature of business	Country of incorporation and principal area of operation	Group interest
National Westminster Bank Plc (1,3)	Banking	Great Britain	100%
The Royal Bank of Scotland plc (3)	Banking	Great Britain	100%
Coutts & Company (2, 3)	Banking	Great Britain	100%
Ulster Bank Ireland Designated Activity Company (3)	Banking	Republic of Ireland	100%
NatWest Markets Plc	Banking	Great Britain	100%
NatWest Markets N.V. (4)	Banking	Netherlands	100%
The Royal Bank of Scotland International Limited (5)	Financial Institution	Jersey	100%

(1) The company does not hold any of the preference shares in issue.
(2) Coutts & Company is incorporated with unlimited liability.
(3) Owned via NatWest Holdings Limited.
(4) Owned via NatWest Markets Plc.
(5) Owned via The Royal Bank of Scotland International (Holdings) Limited.

The above information is provided only in relation to subsidiary companies which would be deemed to be a “significant subsidiary” in accordance with rule 1-02(w) of Regulation S-X as at 31 December 2022.

302 CERTIFICATION **Exhibit 12.1**

I, Alison Rose-Slade, certify that:

1. I have reviewed this annual report on Form 20-F of NatWest Group plc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

February 24, 2023

/s/ Alison Rose-Slade

Alison Rose-Slade
Group Chief Executive Officer

302 CERTIFICATION **Exhibit 12.2**

I, Katie Murray, certify that:

1. I have reviewed this annual report on Form 20-F of NatWest Group plc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

February 24, 2023

/s/ Katie Murray

Katie Murray
Group Chief Financial Officer

906 CERTIFICATION **Exhibit 13.1**

The certification set forth below is being submitted in connection with the annual report on Form 20-F for the year ended December 31, 2022 (the "Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934, as amended (the "Securities Exchange Act of 1934") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Alison Rose-Slade, the Group Chief Executive Officer, and Katie Murray, the Group Chief Financial Officer, of NatWest Group plc, each certifies that, to the best of her knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of NatWest Group plc.

February 24, 2023

/s/ Alison Rose-Slade

Name: Alison Rose-Slade
Group Chief Executive Officer

/s/ Katie Murray

Name: Katie Murray
Group Chief Financial Officer

Exhibit 15.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements of our reports dated February 24, 2023, with respect to the consolidated financial statements of NatWest Group plc (the 'Group') and the effectiveness of internal control over financial reporting of the Group included in this Annual Report (Form 20-F) of the Group for the year ended December 31, 2022.

1. F-3 333-261837
2. S-8 333-197023
3. S-8 333-179967
4. S-8 333-174641
5. S-8 333-171227
6. S-8 333-160220
7. S-8 333-130558
8. S-8 333-153673
9. S-8 333-120980
10. S-8 333-115726
11. S-8 333-85208

/s/ Ernst & Young LLP
London, United Kingdom
February 24, 2023

Exhibit 15.2



Championing potential

A relationship bank for a digital world

NatWest Group plc

2022 Annual Report on Form 20-F - Exhibit 15.2

NatWest Group

Championing potential

A relationship bank for a digital world

We are driven by our purpose and enabled by our strategy.

We remove barriers to create strong enterprises. We turn ambition into action to help tackle climate change. And we build financial capability through learning.

By supporting our customers at every stage of their lives, we can build long-term value, invest for growth, make a positive contribution to society and drive sustainable returns for shareholders.







Our purpose underpinned by our financial strength

In an uncertain environment, we delivered a strong financial performance while also supporting our customers, responsibly growing our lending and making significant investments to transform the bank.

Strong financial performance

Income

£13,156m

(2021: £10,429m)

Operating expenses

£7,687m

(2021: £7,758m)

Profit before tax

£5,132m

(2021: £3,844m)

Profit attributable to shareholders

£3,340m

(2021: £2,950m)

We delivered a strong financial performance and achieved our targets. Total income increased by £2,727 million, or 26.1%, and return on tangible equity was 12.3%.

Operating expenses of £7,687 million were £71 million, or 0.9% lower compared with 2021. Other operating expenses, for the Go-forward group[1], were £201 million, or 2.9% lower than 2021, in line with our cost reduction target of around 3%[2]. We have made good progress on our phased withdrawal from the Republic of Ireland.

Our net impairment charge of £337 million for 2022 principally reflects revisions of scenario weightings, with levels of default remaining low.

(1) Go-forward group excludes Ulster Bank RoI and discontinued operations.
(2) Go-forward group expenses excluding litigation and conduct costs were £6,648 million (2021 – £6,849 million).

Robust balance sheet

Net lending to customers

£366.3bn

(2021: £359.0bn)

Customer deposits

£450.3bn

(2021: £479.8bn)

Net lending to customers increased by £7.3 billion, 2.0%, with growth balanced across the bank. Mortgage growth continued and wholesale lending was strong. We provided £24.5 billion of climate and sustainable funding and financing in 2022, bringing the cumulative contribution to £32.6 billion against our target to provide £100 billion between 1 July 2021 and the end of 2025 (1).

Customer deposits decreased by £29.5 billion, or 6.1% principally reflecting a reduction in Commercial & Institutional, particularly non-operational accounts in Financial Institutions and professional services with relatively low margin and funding value, and a £12.2 billion reduction due to our withdrawal from the Republic of Ireland.

(1) The guidance, targets, expectations, and trends discussed in this section represent NatWest Group plc management's current expectations and are subject to change, including as a result of the factors described in the Risk Factors section of the 2022 NatWest Group plc Annual Report on Form 20-F. These statements constitute forward-looking statements. Refer to Forward-looking statements in this document.

Strong capital generation supports substantial distributions

CET1 ratio

14.2%[1]

(2021: 18.2%)

Total capital returned to shareholders

£5.1bn[2]

(2021: £3.8bn)

RWAs

£176.1bn[1]

(2021: £157.0bn)

Dividend per share (paid and proposed)

30.3p

(2021: 10.5p)

The common equity tier 1 (CET1) ratio remains robust at 14.2%, or 14.0% excluding IFRS 9 transitional relief. Risk-weighted assets (RWAs) of £176.1 billion decreased by £0.2 billion compared with 1 January 2022[1] as lending growth and model changes were offset by disposal activity in Ulster Bank RoI.

A final dividend of 10.0 pence per share is proposed, and we intend to commence an ordinary share buyback programme of up to £800 million in the first half of 2023, taking total distributions deducted from capital in the year to £5.1 billion, or 53 pence per share.

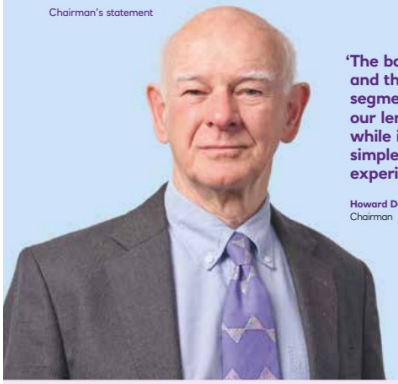
(1) On 1 January 2022 the proforma CET1 ratio was 15.9% and RWAs were £176.3 billion following regulatory changes.
(2) Paid and proposed.

Operational highlights

Delivering on income growth, efficiency and capital returns

	2022	2021	2020
Growth			
Loans to customers – amortised cost	**£366.3bn**	£359.0bn	£360.5bn
AUM net new money	**£2.0bn**	£3.0bn	£1.5bn
Gross new mortgage lending in Retail Banking	**£41.4bn**	£36.0bn	£31.5bn
Percentage of customers exclusively using digital channels to interact with us Retail Banking	**63%**	60%	58%
Simplification			
Operating expenses	**£7,687m**	£7,758m	£7,858m
Artificial intelligence – Retail Banking conversations with Cora our virtual assistant	**10.4m**	10.7m	8.4m
Video banking interactions (2022 for the year and 2021/2020 per week)	**0.33m**	10,200	3,300
Capital			
Dividend per share (paid and proposed)	**30.3p**	10.5p	3p
Total dividend (paid and proposed)	**£3.1bn**	£1.2bn	£0.4bn
Directed buyback	**£1.2bn**	£1.1bn	–
On-market buyback[1]	**£0.8bn**	£1.5bn	–
Total capital returned to shareholders	**£5.1bn**	£3.8bn	£0.4bn
Risk-weighted assets (RWAs)	**£176.1bn**	157.0bn	170.3bn
CET1 ratio	**14.2%**	18.2%	18.5%
Return on tangible equity (2)	**12.3%**	9.4%	(2.4%)

(1) Included in the year proposed
(2) Refer to the Non-IFRS financial measures section of the Annual Report on Form 20-F for details of the basis of preparation and reconciliation of non-IFRS financial measures and performance metrics.



'The bank's financial strength, and that of our business segments, allowed us to grow our lending throughout 2022, while investing to create a simpler and better banking experience for our customers.'

Howard Davies
Chairman

Resilient for the long term

2022 proved to be another extraordinary year.

The UK inflation rate reached a 40-year high, and Russia's invasion of Ukraine not only inflicted devastation on the country and its people, but also led to volatility in energy and financial markets, as well as heightened costs and uncertainty for businesses and consumers around the world.

In response to the surge in inflation, the Bank of England's Monetary Policy Committee voted to increase the Bank Rate from 0.5% in February 2022 to 3.5% in December 2022.

£5.1 billion
shareholder distributions paid and proposed for 2022

Dividend per share (paid and proposed)
30.3p per share

Against a difficult and uncertain economic backdrop, NatWest Group delivered a strong financial performance in 2022. We saw continued growth in our lending and progress against our strategy. The bank's share price rose by 17.5% over the year, outperforming our major UK competitors, while during 2022 the UK Government's shareholding fell from 53% to 46%.

Clearly, the outlook for 2023 remains challenging, with declines in economic activity expected and a further tightening of consumer spending and real incomes. Indications of weakening housing market activity are also emerging. The UK labour market, however, remains strong, with the unemployment rate at 3.7%[1].

As a bank with 19 million customers in the UK – and an employer of around 60,000 people worldwide – we know that many are worried about this economic outlook and its impact on their own financial situation. In the Stakeholder focus area of this report (pages 42–43) we explain the work we have been doing to help our customers, especially those in vulnerable situations, to navigate through this difficult period.

NatWest Group has a high-quality, well-diversified loan book where we are not yet seeing any material signs of deterioration, and credit losses remain low. However, we continue to monitor customer activity and behaviours closely for signs of stress, taking action where appropriate.

(1) UK labour market overview in January 2023.

Our strong financial performance, continued capital generation and robust balance sheet mean that we are able to stand alongside customers, colleagues and communities; providing practical, proactive support as they face into this challenging economic environment.

The bank's financial strength, and that of our business segments, allowed us to grow our lending throughout 2022, while investing to create a simpler and better banking experience for our customers.

Looking back at the three years since we set out our purpose-led strategy, there is a strong track record of success. The Board is fully supportive of our strategy: building on the progress we have made; diversifying our business in order to generate sustainable growth and returns through the economic cycle.

In total, we paid and proposed £5.1 billion of capital returns to shareholders in 2022. As well as paying a £364 million interim dividend and a £1.0 billion final dividend, we paid a special dividend of £1.75 billion along with a share consolidation.

We were also pleased to complete our second directed buyback of £1.2 billion of UK Government shares in March 2022 and we maintain capacity to do more in future. In addition, we completed our second £750 million on-market buyback announced in February 2022 and we will consider further buybacks of that kind.

The drop in the UK Government's shareholding to below 50% for the first time since the financial crisis was a significant moment. While it had no material effect on the way the bank operates, it was an important milestone, underlining the progress we have made.

NatWest Group's strong financial performance has been reflected in the bonus pool for 2022, which has increased from the previous year as our profits rose, while we continue to demonstrate restraint given the market conditions. We kept pay under review through 2022 as the increasing cost of living impacted our people. We focused support on those colleagues working in lower-paid roles, with a permanent pay rise in September 2022 and a one-off cost of living payment announced in December 2022.

We also agreed a 2023 pay package which was supported by our employee representatives and their members, and which recognises the impact inflation is having on spending power, with many colleagues receiving a pay rise of at least £2,000.

There was also strong support at our annual general meeting (AGM) in April 2022 for the Board's recommended changes to normalise executive pay policy and to bring it in line with other UK banks.

The changes will result over time in a more competitive policy for our most senior leaders, recognising the strong progress that has been made against our strategy in recent years. Around two-thirds of pay will continue to be delivered in shares, aligning it to the long-term interests of the bank and its investors.

Board succession planning was a key area of focus in 2022, as two of our long-standing directors approached the end of their tenure on the Board.

In December 2022 we said farewell to Robert Gillespie, who resigned as a non-executive director after nine years. To allow for an orderly handover of responsibilities, Robert stepped down as Chair of the Group Performance and Remuneration Committee in September 2022 and was succeeded by Lena Wilson.

Robert expertly chaired the Group Performance and Remuneration Committee from 2018 until 2022, successfully navigating a period of continued change for the bank. I would like to thank him for his tremendous contribution over the years. We have benefited greatly from his wisdom and experience.

In October 2022, we were pleased to welcome Roisin Donnelly to the Board as an independent non-executive director. Roisin has an impressive executive track record in customer experience, data and digital transformation, together with significant board experience, and brings valuable perspectives to Board discussions.

And in December 2022, we announced that Stuart Lewis will join the Board as a non-executive director in April 2023. Subject to regulatory approval, Stuart will be appointed as Chair of the Group Board Risk Committee on 1 August 2023. He will replace Morten Friis, who has confirmed his intention to step down as a non-executive director in July 2023.

Mike Rogers has also confirmed he will be stepping down as a non-executive director in April 2023, in order to take up the role of Chairman of Admiral Group plc. I would like to record my thanks to both Morten and Mike for their commitment, diligence and immense contributions as non-executive directors.

During a period of significant change in the external environment, the Board was kept regularly informed by management on the impacts of geopolitical and economic developments on the bank and its customers.

Strategy and climate were also high on the Board's agenda. Following strong shareholder support at our AGM for our 'Say on Climate' resolution, the Board continued its close oversight of progress towards our climate ambitions ahead of the publication of the initial iteration of our Climate transition plan.

As they did during the COVID-19 pandemic, Alison and her leadership team have used the bank's purpose to support our commercial and retail customers while growing the business and delivering against the strategic priorities.

The Board is pleased with the progress that has been made over the last three years and supports the priorities that Alison and her capable team have set out.

I would also like to take this opportunity to congratulate Alison on being appointed a Dame in the New Year Honours List in December 2022, which recognised her contribution to the financial services sector.

While we are operating in an uncertain landscape, I am confident that NatWest Group's strategy will continue to ensure that we can support all of our stakeholders through the challenges and opportunities in the years to come.

Howard Davies
Chairman



'We champion the potential of the people, families and businesses we serve – when things are going well, and when things are tough. By standing strong and standing together, we can provide the support and security our customers, colleagues, economy and society need.'

Alison Rose DBE
Group Chief Executive Officer

A relationship bank for a digital world

In 2022, as the country recovered from the COVID-19 pandemic, we witnessed economic conditions not seen in generations. The highest inflation rate in decades, rising interest rates, a steep increase in energy costs and supply chain disruption had a huge impact on people's lives. This meant that being guided by our purpose to support our stakeholders and drive long-term sustainable value was as important as ever.

In light of these challenging economic circumstances, we focused on putting in place proactive support to help people, families and businesses to manage, and to help alleviate the financial pressures being felt by those who were most vulnerable. The strength of our balance sheet has allowed us to stand alongside our customers and help them to navigate this heightened uncertainty, as well as delivering a strong financial performance for NatWest Group and value for shareholders.

Support for the cost of living

We responded quickly and meaningfully, proactively contacting our customers to offer support and information on the cost of living. In addition, we carried out c.0.7 million financial health checks in 2022 and launched our credit score feature in our mobile app to help customers understand their credit score. Our online cost of living hub was also established to share resources and tools, informing customers of the support that is available to them, as well as support through third parties. These measures were in addition to £4 million in donations to provide grants and support, delivered in collaboration with organisations including Citizens Advice, The Trussell Trust, Step Change and PayPlan.

As one of the leading banking partners of UK business, we have taken a range of actions on charges, waiving fees on some products where appropriate, including freezing standard published tariffs on Business Current Accounts for 12 months to help SMEs, and offering free card machine hire for new customers on our payment service Tyl.

For our commercial customers, we were able to deliver tailored support to the most impacted sectors, including a £1.25 billion lending package for our c.40,000 agriculture customers, as well as providing c.51,700 financial health checks for our business customers.

Supporting our colleagues during this period has continued to be a key focus. In addition to the pay review in April 2022, and following consultation with our recognised employee representatives in September 2022, we put in place targeted action to provide long-term support for colleagues through a permanent increase in base pay for our lowest-paid colleagues, globally. This brought total investments in pay of around £115 million per annum in 2022, an increase of 85% on 2021.

We agreed further measures for 2023 which include a one-off £1,000 cost of living cash payment for c.42,000 colleagues in the UK, Republic of Ireland and Channel Islands, and c.60,000 people globally. The 2023 pay proposal also includes a minimum increase of £2,000 for almost all of the colleagues covered by it. Taken together, this will mean that c.80% of lower-paid colleagues covered by our negotiated pay approach will receive an increase, plus a cash payment, equivalent to 10% or more of their fixed pay. In the UK, our rates of pay continue to exceed the 'Living Wage Foundation' benchmarks and, for our major hubs outside the UK, we continue to pay above the minimum and living wage rates in the Republic of Ireland as well as exceeding the minimum wage benchmarks in India and Poland.

Delivering on our strategy

Of course, these actions – driven by our purpose – are not just the right thing to do, but they are key to building a long-term, profitable organisation and are underpinned by the strong foundations of our strategy. Our operating profit for 2022 of £5.1 billion increased from £3.8 billion the year before. Pleasingly, this was driven by strong performance across all business segments and enabled from a position of responsible and sustainable lending. We also continued to make progress against our financial targets. Total operating expenses of £7,687 million were £71 million, or 0.9% lower compared with 2021. Other operating expenses, for the Go-forward group[1], were £201 million, or 2.9% lower than 2021, in line with our cost reduction target of around 3%[2], and we retain a CET1 ratio of 14.2%, in line with our target.

Against an uncertain economic outlook, the strength of our balance sheet and the quality of our loan and deposit base allow us to continue lending responsibly while also helping our customers to navigate the challenges they are facing. Net lending balances increased by £7.3 billion, 2.0%, with growth balanced across the bank. Mortgage growth continued and wholesale lending was strong across the whole book. Customer deposits did decrease by £29.5 billion, or 6.1%. However, this principally reflected a reduction in our Commercial & Institutional segment, and a £12.2 billion reduction due to our withdrawal from the Republic of Ireland.

This strong capital position and continued capital generation means that we are well placed to invest for growth, to provide the support our customers need as the economy recovers and to drive sustainable returns to shareholders, with £5.1 billion shareholder distributions paid and proposed for 2022 through dividends and buybacks. Against this backdrop, we also returned to majority private ownership during 2022 with the UK Government's stake falling below 50%, which was a symbolic milestone for our bank.

It is from this basis of progress and profitability that we are amplifying our strategy, accelerating what we're doing but also being mindful of new opportunities and challenges we and our customers face. We aim to create ever closer and deeper relationships with our customers at every stage of their lives – support that starts earlier, reflects their values and meets their changing needs. It is a simple principle: if our customers thrive, so will we.

And our purpose, to champion potential, helping people, families and businesses to thrive, which has guided us through the last few years, is here to stay. Through our three areas of focus – climate, enterprise, and learning – we believe we can make a meaningful contribution to our customers and society and create long-term value for all our stakeholders. This allows us to build on our track record of delivery, to move forward with confidence and pace and to compete effectively in a rapidly changing external market. The result will be a more sustainable business with more diverse income streams, able to support our customers and generate sustainable growth.

New and emerging social, commercial and economic trends are shaping our customers' financial lives and there are important opportunities to transform our relevance and value to customers, building on their trust. We will do this by delivering personalised solutions throughout customers' lifecycles; embedding our services in our customers' digital lives; and supporting customers' sustainability transitions.

Our values in action

Our values are at the heart of how we deliver our purpose-led strategy. In 2021, we engaged with colleagues, customers and communities to re-envision a modernised set of values that fully align with our strategic priorities. These collaborative and evolved values of being inclusive, curious, robust, sustainable and ambitious were launched in 2022 and now form an integral part of our identity (read more in our Stakeholder focus area on page 47).

Indeed, these values are evident in the contributions we have been making to communities and wider society during 2022. With the tragic events from Russia's invasion of Ukraine dominating our thoughts for most of the year, it has been incredibly humbling to witness the collective response for those affected. Donations from NatWest Group colleagues and customers to the DEC Ukraine Humanitarian Appeal exceeded £10 million. In addition, NatWest Group pledged £100,000 to support 500 Ukrainian students to continue their studies at Polish universities and polytechnics. We also made Gogarburn House, in the grounds of our head office in Edinburgh, available to the Scottish Government and Edinburgh City Council as a welcome centre for people displaced from Ukraine and offered assistance to refugees wishing to open bank accounts. Meanwhile, our colleagues provided relief aid at the Polish–Ukrainian border and opened their homes to Ukrainian families.

We continue to invest in the future of not just our colleagues, but future generations. We have been delighted to collaborate with footballer and campaigner Marcus Rashford MBE and the National Youth Agency (NYA) to provide NatWest Thrive, a unique programme for young people to develop their self-belief as well as their money confidence. Early feedback from the pilot scheme was incredibly encouraging, delivering a 63% uplift in participants' confidence about their futures.

(1) Go-forward group excludes Ulster Bank RoI and discontinued operations.
(2) Go-forward group expenses excluding litigation and conduct costs were £6,648 million (2021 – £6,849 million).

NatWest Thrive has since been rolled out to 15 clubs, reaching over 800 young people across the UK with plans to scale much further. NatWest Group will also transfer £3 million of its apprenticeship levy to the NYA to support the training of 200 youth workers.

Learning is a key focus area for the business. And whether this is through the ongoing successes of our MoneySense and CareerSense schemes helping young people with financial advice and employability, our Talent Academy, or our social mobility apprenticeship programmes, we have ensured that we continue to help break down the barriers for people to succeed and thrive.

To help build financial capability early on, we also launched NatWest Rooster Money. The pocket money product helps children develop money confidence and positive habits around saving and spending, nurturing financial resilience in the next generation. We have built a smooth connection to Rooster Money via the main mobile app and there have been c.89,000 Rooster Money card openings in 2022.

Elsewhere, in collaboration with Meta, we launched a package of support for female entrepreneurs through the #SheMeansBusiness programme, which selected 50 of the most promising female entrepreneurs from c.3,600 applicants to form a dedicated support community, with sessions delivered by our Enterprise Delivery Team over a six-month period. And to shine a light on women running thriving businesses in the face of current economic challenges, we were delighted to launch with *The Telegraph*, the '100 Female Entrepreneurs to Watch' list. Alongside Aston University, we also published the report 'Time to change: A blueprint for advancing the UK's ethnic minority businesses', which sets out recommendations for policymakers, companies and entrepreneurs to advance the growth potential of ethnic minority businesses.

I was also immensely proud of the announcement of our new partner leave policy[1], which supports all eligible colleagues with significantly more time away from work to help their partner look after their new child, whether the child has arrived through birth, adoption or surrogacy.

The net-zero opportunity

Through funding, refinancing and supporting people, families and businesses to transition to net zero, we want to help create a sustainable future for our customers, communities and our planet. It is why addressing the climate challenge – one of the biggest issues of our time – is a key strategic priority for the bank. It sits at the heart of our purpose, because we know that tackling climate change is the right thing to do both societally and commercially.

We have made significant progress in turning our climate ambition into action since setting out our climate strategy in 2020. As a founding member of the Net Zero Banking Alliance (NZBA) and the Glasgow Financial Alliance for Net Zero (GFANZ), and as a principal partner of COP26, in 2021 NatWest Group established itself as one of the leading voices for finance on tackling climate change.

During 2022, I was delighted to see that our momentum continued. Our global approach was again in evidence at COP27, where we worked alongside the UK Government to support the UK Pavilion, co-hosting several high-profile events with customers and key stakeholders such as the Sustainable Markets Initiative. Closer to home, through our first climate resolution, the Board gave shareholders their 'Say on Climate', asking them to support our strategic direction on climate change at the AGM. 92.58% of votes cast were in favour of the resolution, indicating strong support for our climate strategy.

NatWest Group has also become the first UK bank, and one of the largest banks globally, to have science-based targets validated by the Science Based Targets initiative (SBTi). These targets underpin the initial iteration of our Climate transition plan (published in our 2022 Climate-related Disclosures Report), which outlines the steps we aim to take to at least halve the climate impact of our financing activity by 2030, thereby contributing to the UK's net-zero strategy, and to reach net zero by 2050 across our financed emissions, assets under management and operational value chain.

But we know that we can, and must, do more. We also want to provide the practical solutions to help our customers transition to net zero. By delivering initiatives such as our Greener Homes Retrofit pilot, launching our EPC rating tool in our digital mortgage hub and launching our new Carbon Planner for UK business, we are enabling our customers to identify potential cost and carbon savings.

Importantly, I believe these actions are not only good for the planet, but good for business too. With the right support, the UK's SMEs could create up to 260,000 new jobs, produce around 40,000 new businesses and deliver an estimated £175 billion revenue opportunity for the UK economy by 2030[2]. Of course, this is not something any individual organisation can do on its own. Support from policymakers as well as collaboration across the private sector will be vital for mobilising the finance necessary to fund the infrastructure of future green economies. Initiatives such as Carbonplace, where NatWest Group has joined forces with other financial institutions to create a global carbon credit transaction network, or the Sustainable Homes and Buildings Coalition, which NatWest Group launched with British Gas and Worcester Bosch to improve UK buildings' energy efficiency, are great examples of how this cross-industry collaboration can have meaningful real-world impact.

(1) Our partner leave policies will replace existing paternity leave policies from 1 January 2023 across our operations in the UK, Offshore, Republic of Ireland, US, Poland and India.

(2) This Springboard to Sustainability Report (i) has been prepared by NatWest Group for information and reference purposes only; (ii) is intended to provide non-exhaustive, indicative and general information only; (iii) does not purport to be comprehensive; and (iv) does not provide any form of legal, tax, investment, accounting, financial or other advice. The key findings, estimates and projections in this report are based on various industry and other information and are based on assumptions and estimates and the result of market research, and are not statements of historical fact. Whilst the information of this report is believed to be reliable, it has not been independently verified by NatWest Group and NatWest Group makes no representation or warranty (express or implied) of any kind, as regards the accuracy or completeness of this information, nor does it accept any responsibility or liability for any loss or damage arising in any way from any use made of or reliance placed on, this information. Unless otherwise stated, any views, forecasts, or estimates included in this report are solely those of the NatWest Group Economics Department, as of this date and are subject to change without notice.

(3) Green Mortgages are available to all intermediaries for all residential and Buy to Let properties with an energy performance rating of A or B and specific new build developer properties. Available for Purchase, Porting & Re-mortgage applications.

(4) The guidance, targets, expectations, and trends discussed in this section represent NatWest Group plc management's current expectations and are subject to change, including as a result of the factors described in the Risk Factors section of the 2022 NatWest Group plc Annual Report on Form 20-F. These statements constitute forward-looking statements. Refer to Forward-looking statements in this document.

We have now provided £32.6 billion of climate and sustainable funding and financing against our target to provide £100 billion between 1 July 2021 and the end of 2025, which includes £27.2 billion across Commercial & Institutional (C&I), as well as mortgage lending for EPC A and B homes totalling £5.1 billion in Retail Banking and £0.2 billion in Private Banking. And, delivered in collaboration with fintech firm Cogo, our carbon-tracking tool for retail customers had 334,500 unique users in 2022, a clear indication of the demand that our customers have for understanding the carbon footprint of their daily spending.

Conclusion

2022 has shown us the importance of being a purpose-led bank. But it has also shown us what it takes to be purpose-led. Against a volatile economic backdrop, we continue to demonstrate the strength and resilience of our business, delivering a strong financial performance while supporting our customers and putting in place proactive support to help those who are most vulnerable.

To continue to do this, we are evolving our capabilities. Underpinned by the strong foundations of our strategy, we are investing in our technology and colleagues so we can serve our customers in new ways that make their lives easier. Our focus now is on the opportunities those relationships offer for growth: for our customers, for our economy and, as a result, for the bank.

Sustainable growth will come from building closer relationships that better serve our customers at every stage of their lives. These relationships will be based on insight, understanding, and shared goals, powered by data-driven innovation. This will enable us to make a real difference to our customers' lives by providing the right advice, products and support to unlock potential. We will also strengthen our relationships by working with partners to ensure we deliver the services and products customers expect, when they want them, tailored to fit their lives.

By getting closer to our customers, by offering them an ever-better service, day in, day out, we create sustainable growth for the bank because those customers, over a lifetime, will recommend us to others and use us in more parts of their lives.

We've always known relationships matter, and now we are doing more than ever before to harness them. By providing the support and security our customers, colleagues, economy and society need, together we can help build a more sustainable future for people, families, businesses and the planet.

Alison Rose DBE
Group Chief Executive Officer



The initial iteration of our Climate transition plan

The initial iteration of our Climate transition plan focuses on the delivery of our 2030 decarbonisation ambitions. This will form the basis for further work on our journey to net zero by 2050 across our financed emissions, Assets under Management and our operational value chain. We have used available guidance, including GFANZ, Transition Planning Taskforce and the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, to inform the development of our transition plan.

A strategic tool, the initial iteration of our Climate transition plan will be developed and enhanced further as we move towards 2030 and beyond. Read more in our 2022 Climate-related Disclosures Report.

Our ambition to be a leading bank in the UK helping to address the climate challenge is a core part of our purpose-led strategy. For more information of our purpose in action, watch Alison Rose's interview online:

Any information contained on websites linked or reports referenced in this section is for information only and will not be deemed to be incorporated by reference herein.

Our purpose-led strategy is delivering

Our strategic priorities

- Supporting customers at every stage of their lives
- Powered by innovation and partnerships
- Simple to deal with
- Sharpened capital allocation

Our investment case over the medium term

- Strong market positions across our three business segments
- Well-positioned for targeted growth
- Disciplined expense and risk management, targeting a cost:income ratio (excl. litigation and conduct) of <50% by 2025[1]
- All-weather balance sheet, operating with a CET1 ratio in the range of 13–14%

Sustainable medium-term RoTE of 14–16%

Pay out ratio of 40% + capacity to participate in buybacks

Customer needs and expectations are continuing to change ever more rapidly; new and emerging social, commercial and economic trends are shaping the future of their financial lives.

We have identified three key growth areas where we can amplify our strategy:

- **Delivering personalised solutions throughout customers' lifecycles – every customer is an individual.**
- **Supporting our customers' sustainability transitions.**
- **Embedding our services in our customers' digital lives – being where our customers are.**

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Outlook[1]

The economic outlook remains uncertain. We will monitor and react to market conditions and refine our internal forecasts as the economic position evolves. The following statements are based on our current expectations for interest rates and economic activity.

Outlook 2023

- We continue to expect to achieve a return on tangible equity for the Group of 14-16%.
- Income excluding notable items for the Group is expected to be around £14.8 billion and full year NIM around 3.20%, based on a Bank of England base rate of 4.00% through the remainder of 2023.
- We expect to deliver a Group cost:income ratio (excl. litigation and conduct) below 52% or around £7.6 billion of Group operating costs, excluding litigation and conduct costs.
- Impairment losses in 2023 are expected to be in line with our through the cycle guidance of 20-30 basis points.

Capital and funding

- We expect to generate and return significant capital to shareholders through 2023.
- We expect to pay ordinary dividends of 40% of attributable profit, and maintain capacity to participate in directed buybacks from the UK Government, recognising that any exercise of this authority would be dependent upon HMT's intentions and limited to 4.99% of issued share capital in any 12-month period.
- We will also consider further on-market buybacks as part of our overall capital distribution approach as well as inorganic opportunities where the strategic case and returns are suitably compelling.
- As part of the Group's capital and funding plans we intend to issue between £3 billion to £5 billion of MREL-compliant senior instruments in 2023, with a continued focus on issuance under our Green, Social and Sustainability Bond Framework, and up to £1 billion of Tier 2 capital instruments. NatWest Markets plc's funding plan targets £3 billion to £5 billion of public benchmark issuance.

Medium term

- We continue to target a sustainable return on tangible equity for the group of 14-16% over the medium term.
- We expect to deliver a Group cost:income ratio (excl. litigation and conduct) of less than 50%, by 2025.
- We expect that RWAs could increase by a further 5-10% by the end of 2025, including the impact of Basel 3.1.
- We expect to continue to generate and return significant capital via ordinary dividends and buybacks to shareholders over the medium term and continue to expect that the CET1 ratio will be in the range of 13-14%.

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(2) No IFRS equivalent is presented for the return on tangible equity, income excluding notable items and cost:income ratio (excl. litigation and conduct costs) targets in reliance upon the exception provided by Regulation S-K Item 10(e)(1)(i)(B) because the information required to provide an IFRS equivalent target is not available without unreasonable efforts. For more information about the use and reconciliation of these non-IFRS measures refer to the Non-IFRS financial measures section of the Annual Report on Form 20-F.

Our purpose framework

A relationship bank for a digital world

We are guided by our purpose

Read more on pages 6–9

NatWest Group champions potential, helping people, families and businesses to thrive.

Because when they thrive, so do we.

We are informed by the needs of our stakeholders

Read more on pages 36–39

Delivering long-term sustainable value and attractive returns, now and for the next generation.

- Customers
- Investors
- Regulators
- Colleagues
- Communities
- Suppliers

We have four strategic priorities...

Read more on pages 22–23

Focused on growth, underpinned by our values and an intelligent approach to risk:

- Supporting customers at every stage of their lives
- Simple to deal with
- Powered by innovation and partnerships
- Sharpened capital allocation

...creating a positive impact through our areas of focus

Read more on pages 26–27

Climate

We have made addressing the climate challenge and supporting our customers in their transition to net zero a key strategic priority.

Read the story on page 53

Enterprise

Our ambition is to remove barriers to enterprise and to provide businesses in the UK the support they need to grow.

Read the story on page 14

Learning

We are helping people to take control of their finances, to make the most of their money, safely and securely – now and in the future.

Read the story on page 28

Our purpose

NatWest Group champions potential, helping people, families and businesses to thrive. Because when they thrive, so do we. Our purpose guides and underpins everything we do. It enables us to build long-term value, to invest for growth, to make a positive contribution to society and to drive sustainable returns for shareholders.

Our stakeholders

We aim to balance the different interests of our stakeholders – customers, investors, regulators, colleagues, communities, and suppliers – in all our decision-making, especially when there are difficult choices to be made. We also recognise the need for transparency and openness, regularly engaging and seeking the views of our stakeholders.

Our robust balance sheet, strong capital position and capital generative businesses mean we are well placed to support our customers and invest for growth, as well as driving sustainable returns to shareholders and creating long-term value for all our stakeholders.

Our strategy

We are a relationship bank for a digital world. Our strategy for growth delivers on our purpose and drives sustainable returns to shareholders through four strategic priorities: we will support our customers at every stage of their lives; we will be powered by innovation and partnerships as we accelerate our digital transformation; we will be simple to deal with; and we will allocate our capital in a way that delivers for customers and shareholders.

Our values

Our values are at the heart of how we deliver our purpose-led strategy. In 2022, having engaged with colleagues, customers, community stakeholders and suppliers, we launched our refreshed values of being inclusive, curious, robust, sustainable and ambitious. These refreshed values now form an integral part of our cultural identity.

Our positive impact

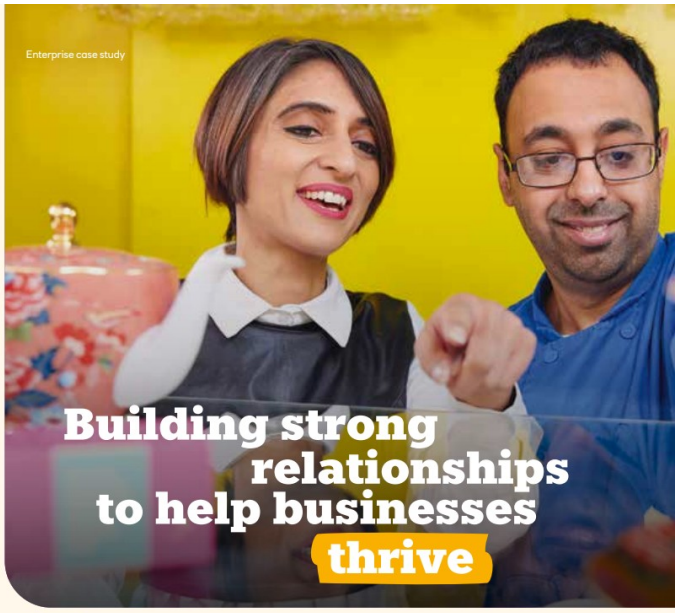
We recognise the huge responsibilities that our role brings – from supporting the day-to-day financial needs of 19 million customers to the positive impacts we can have on the environment and wider society.

We have identified three focus areas where we can make a meaningful contribution and build long-term value in our business: Climate, Enterprise and Learning.

Better Business

We continue to partner with the Blueprint for Better Business, whose framework informs our purpose-led decision-making and helps us to create and protect value for customers, suppliers, colleagues, communities, future generations and our shareholders. Read how we have created value for stakeholders and society in 2022 on pages 20 and 21, and refer to our key performance indicators on pages 24 and 25.

Enterprise case study



Building strong relationships to help businesses thrive

Supporting dynamic businesses

Championing the potential of UK businesses is about more than just providing financial backing.

For us, it's about understanding ambition and helping to remove the barriers to enterprise. We know we can play a key role in inspiring future generations to develop their skills, experience and business ideas, and ultimately to achieve their goals.

A great example of this is our support for Birmingham-based social enterprise Miss Macaroon. Founded by Rosie Ginday MBE in 2011, the company combines a passion for producing premium-quality food and a desire to help young people gain the skills and confidence to change their lives.

Starting life with a small kitchen space and just £500 in capital, Miss Macaroon has now produced over three million macaroons for global brands, royalty and a host of celebrities, as well as becoming one of the region's leading employability programmes.

We were first able to support Rosie through the NatWest Group Accelerator programme by providing one-to-one coaching, access to mentors and industry experts, and networking with a community of like-minded entrepreneurs, as well as hot-desking space at our commercial offices in Birmingham. Through the Accelerator, Rosie received support to expand her company and open multiple retail outlets across the Midlands.

The company has gone from strength to strength, expanding its operations from individual customer orders to catering for wholesale businesses. With the development of a unique colour-matching service, Miss Macaroon has also attracted major corporate clients such as John Lewis.

Importantly, Miss Macaroon's commercial success has enabled its social purpose, helping to deliver the MacsMAD programme which provides young people who often have multiple and complex needs the opportunity to gain work experience, better their career prospects and positively change their lives.

To date, 134 young people have been supported through the programme. It's a fantastic achievement that not only speaks to Rosie's vision, but also to the opportunities created when businesses get the support to thrive.



Through the Accelerator, Rosie received support to expand her company and open multiple retail outlets across the Midlands.







Adapting to evolving market trends

The environment we operate in is constantly changing. Understanding the multiple influences on our business enables us to be prepared for change, to respond quickly and to create value for the long term.

Economy

Overview

In 2022, the UK economy continued its recovery from the impact of COVID-19 and lockdown restrictions, with GDP approaching pre-pandemic levels. Russia's invasion of Ukraine and other global factors led to very large increases in energy costs and other commodities during the year. The resulting high inflation prompted central banks to tighten monetary policy and markets to anticipate significant increases in interest rates, leading to asset market volatility. In the UK the government announced a significant easing of fiscal policy, with measures to protect households from some of the increase in energy prices, as well as support for businesses and a reversal of some planned tax rises. Other countries introduced similar measures through a variety of policies. Sterling fell against the US dollar and the euro. In the longer term, demographic change, climate change, high levels of debt and inequality could all have financial impacts for our customers.

Our response

We know the tough economic conditions many of our customers have faced throughout 2022. As such, we have remained focused on removing barriers to doing business and providing more opportunities for companies to grow, helping the economy to build back better through initiatives such as our Accelerator programme, our national and regional SME Taskforce boards and our Business Builder toolkit, as well as supporting young enterprise through our involvement with The Prince's Trust.

Customers

Overview

Expectations of banks have shifted markedly in recent years. Customers are wanting banks to deliver a better service: one that is simpler, more relevant and more purposeful. How customers access our products and services has already changed with increasing numbers of customers reaching us online and through our mobile app. The ways people live, work and run businesses are also altering at pace, with the pandemic accelerating the trend towards more digital services, while also seeing a proliferation of 'side-hustle' businesses. As well as monitoring these longer-term trends we have also been extremely mindful of the impact of rising prices during 2022 and the potential financial distress that this could cause the customers, businesses and communities we serve.

Our response

In response to the continued increases in the cost of living across the UK, we have put in place a range of targeted measures to support those who are likely to need it most, including proactive contacts to our customers to offer support and information. In addition, we carried out c.0.7 million financial health checks in 2022 and launched our credit score feature in our mobile app to help customers understand their credit score. Our online cost of living hub was also established to share resources and tools, informing customers of the support that is available to them, as well as support through third parties. These measures were in addition to £4 million in donations to provide grants and support, delivered in collaboration with organisations including Citizens Advice, The Trussell Trust, Step Change and PayPlan. Meanwhile, as we look ahead to the next phase of our strategy, our future growth will be based on building new forms of relevance and trust with our customers, as well as supporting them through the challenges of today. We have identified three areas for sustainable future growth where we are well placed to do this: delivering personalised solutions throughout our customers' lifecycles; embedding our services in our customers' digital lives; and supporting our customers' sustainability transitions.

Technology

Overview

New business models and customer behaviours continue to evolve rapidly through advancing technology alongside large-scale societal changes. In the post-pandemic era, we recognise the growing role of technology in everything from digital work environments to the access and delivery of goods and services, including those within the financial sector.

We have remained focused on removing barriers to doing business and providing more opportunities for companies to grow.

Our response

We are leveraging technology to deliver value through the lifecycles of our customers. By helping them more and in technologically-embedded ways, our relationships should become closer and deeper, as well as more valuable. We continue to develop new services, based on an understanding of customers' lives, that more closely fit with what our customers want. Whether this is through new commercial offers that help run invoice management and cash flow analysis, integrated payments solutions or AI-based customer service, each of these innovations is designed to benefit customers, society and the economy, as well as being a driver of long-term sustainable value.

Cyber threats

Overview

Cyberattacks pose a constant risk to our operations, both in relation to our own digital estate and indirectly with regard to our supply chain. Cybercrime continues to evolve rapidly. Attacks may be from individuals or highly organised criminal groups intent on stealing money or sensitive data, or potentially holding organisations to ransom.

Our response

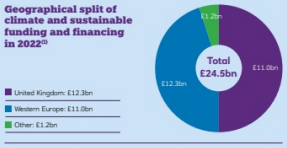
We continue to invest significant resources in the development and evolution of cybersecurity controls, to deploy rigorous due diligence with regard to third parties and to work to protect and educate our colleagues and customers on fraud and scam activity. To provide continuity of service for customers with minimal disruption, we monitor and assess a diverse and evolving array of threats, both external and internal, as well as developing, strengthening or adapting existing control capability to be able to absorb and adapt to such disruptions.

Climate change

Overview

Climate change represents an inherent risk to NatWest Group, not only from its impact on the global economy, our customers, suppliers and counterparties, but also through its potential effects on asset values, operational costs and business models as the essential transition to a net-zero economy accelerates. These risks are subject to increasing regulatory, legislative, political and societal change. Conversely, the requirement to reduce carbon emissions also means NatWest Group has a significant role to play in areas such as the provision of climate and sustainable funding and financing.

Geographical split of climate and sustainable funding and financing in 2022[1]



(1) Since 1 July 2021, UK £17.8 billion, Western Europe £13.0 billion and Other £1.8 billion. Geography for bond issuance is linked to the region of the issuer; for loans it is linked to the region of operation of the borrowing customer.

(2) The guidance, targets, expectations, and trends discussed in this section represent NatWest Group plc management's current expectations and are subject to change, including as a result of the factors described in the Risk Factors section of the 2022 NatWest Group plc Annual Report on Form 20-F. These statements constitute forward-looking statements. Refer to Forward-looking statements in the Annual Report on Form 20-F.

Our response

As part of the implementation of its climate ambitions, at NatWest Group's AGM in April 2022, ordinary shareholders passed an advisory 'Say on Climate' resolution. Through the bank's first climate resolution, the Board asked shareholders to support our strategic direction on climate change, our intention to develop a Climate transition plan and for annual progress reports to be published. 92.58% of votes cast were in favour of the resolution, indicating strong support for our climate strategy. We also became the first UK bank, and one of the largest banks globally to date, to have science-based targets validated by the Science Based Targets initiative (SBTi). These targets, which cover 79% of our lending activities by exposure as at 31 December 2019, underpin the initial iteration of our Climate transition plan, which is incorporated within our 2022 Climate-related Disclosures Report. We provided £24.5 billion climate and sustainable funding and financing in 2022, bringing the cumulative contribution towards our target to provide £100 billion between 1 July 2021 and the end of 2025 (2), to £32.6 billion. As at the end of 2022, we had reduced our direct own operations emissions by 46%, against a 2019 baseline, with a plan to achieve a 50% reduction by 2025. Achievement of our climate ambitions is dependent on timely UK Government policy and technology developments, as well as on our customers and society to respond. At the same time, as a purpose-led organisation, we aim to engage and support our customers' transition to a net-zero economy. Read more in the 2022 Climate-related Disclosures Report.

Regulation

Overview

We operate in a highly regulated market which continues to evolve in scope. Areas of current regulatory focus include: delivering good customer outcomes, in particular the Financial Conduct Authority's (FCA) new requirements for a Consumer Duty, which expands its rules and principles to force firms to provide better consumer protection; operational resilience, in light of the UK authorities' policy requirements; climate change, and the development of the regulatory framework for sustainable finance; fraud and financial crime, with a focus on protecting customers from ever more sophisticated scams; capital and liquidity management, including the UK's approach to the implementation of Basel III; the UK's future regulatory framework, following its exit from the European Union and the opportunities that this provides; digital currencies, with the development of both public (central bank digital currencies) and private (e.g. stablecoins) offerings which have the potential to materially change the digital payments landscape; improving diversity, equity and inclusion in financial services through policy developments focused on improved data collection and reporting, and use of targets for representation.

Our response

We constantly monitor regulatory change and work with our regulators to help shape those developments that materially impact the bank, lobbying when necessary either bilaterally or in partnership with one of our affiliated industry bodies. We implement new regulatory requirements where applicable and use our frequent engagement meetings with regulators to discuss key regulatory priorities.

How we create value

Guided by our purpose and informed by the needs of our stakeholders, we aim to create value that has a positive impact on our environment and wider society.

Our key relationships and resources

Human

- Strong and deep customer relationships
- Credible and diverse talent pipeline
- Healthy and inclusive culture
- Creative and innovative partnerships
- Positive contribution to communities

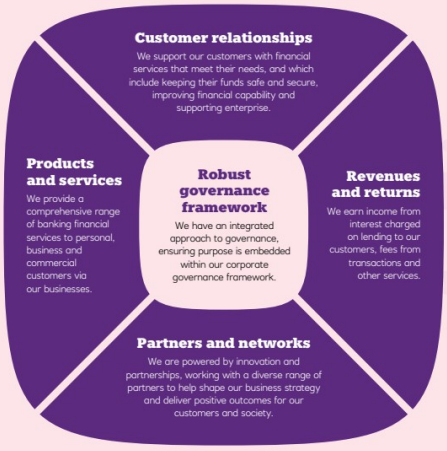
Financial

- Strong balance sheet and financial position
- Focused capital allocation
- Intelligent approach to risk
- Sustainability as a driver for value creation

Infrastructure

- Property and technology infrastructure
- Partnerships and collaborations to enable a diverse and sustainable supply chain

Our approach to running a safe and secure bank



Delivering long-term sustainable value and attractive returns, now and for the next generation

Focus on the customer journey

Continually focused on improving the customer journey, using technology and data to advance our service offerings and protect our customers.

Creating a leading customer digital experience

Offering our customers more relevant products, more quickly and at the right time through our targeted investment in data, technology, and digitisation.

Delivering fair and sustainable returns for shareholders

Focused on sustainability as a driver for value creation.

Supporting our customers' transition to net zero

Qualified relationship managers and carbon tracking tools to support customers' transition to net zero.

Creating opportunity for businesses and enterprise

Removing the barriers to enterprise particularly supporting those that have traditionally faced the highest barriers.

A leading bank in the UK helping to address the climate challenge

We have an ambition to at least halve the climate impact of our financing activity by 2030, against a 2019 baseline, align with the 2015 Paris agreement and be net zero by 2050.

Promoting financial capability

Our purpose-led focus areas help us to build financial skills and capabilities across colleagues, customers, and the community.

Reducing our carbon footprint

Continuing to reduce emissions from our own operations and that of our wider operational value chain.

Highly experienced colleagues with valuable industry insight

Experience of a challenging economic environment, shaping responses to current economic conditions, including how the cost of living crisis impacts customers.

Supporting energy-efficient homes

Supporting our UK mortgage customers through differentiated product pricing to incentivise residential energy efficiency and the purchase of the most energy efficient homes.

Powerful partnerships

Collaborating across industry and creating products and services to enable customers to track their carbon impact.

Helping colleagues realise their potential

With inclusion at the heart of our values, we continue to bring our diversity, equity and inclusion strategy to life. We provide all colleagues with the chance to succeed and the support to thrive.

Making a difference in our local communities

Supporting and giving back to the communities we operate in.

Value created for stakeholders and society during the year

Over £80 million
of Coutts' clients' capital mobilised in equity growth funding for SMEs in the UK Enterprise Fund



We hired 1,135
interns, graduates and apprentices in 2022, including **171 apprentices** recruited through our social mobility programmes

79%
of our lending exposure, as at 31 December 2019, covered by 2030 sector targets validated as science-based by Science Based Targets initiative

10.1 million
active digital customers

8.9 million
actively use our mobile app

3.8 million
use our online banking platform



£32.6 billion
cumulative contribution towards £100 billion climate and sustainable funding and financing target[4]
(2021: £8.1bn (1 July-31 Dec))

Our View colleague survey
colleague sentiment on inclusivity remained strong in 2022, maintaining a **score of 93% – 9% above the Global Financial Services Norm** and **8% above the Global High Performance Norm**

Over £10 million
raised for the DEC Ukraine Appeal by NatWest Group, and through customer and colleague donations to support relief efforts

£2.9 billion
Retail Banking Green Mortgage completions since launch[5]
(2021: £0.7 billion)

5.1 million
financial capability interactions delivered by 31 December 2022 against the 2023 target[6]
Cumulative 2020 – 2022: 14.07m

(1) Against a 2019 baseline. Direct own operations is defined as Scope 1, Scope 2 and Scope 3 (paper, water, waste, business travel, commuting and work from home) emissions. It excludes upstream and downstream emissions from our value chain.

(2) Historic values are updated from values reported in 2021. This is due to updated bills, data provision and extrapolations.

(3) Comprises £1,172 million corporate tax, £543 million irrecoverable VAT, £98 million bank levies, £276 million employer payroll taxes and £82 million other taxes.

Strategic priorities

Supporting customers at every stage of their lives | Simple to deal with | Powered by innovation and partnerships | Sharpened capital allocation

167
colleagues reskilled as part of a formal programme

46%
reduction in emissions in our direct own operations[1]
(2021: 44%)[2]



MoneySense has helped
11.5 million
young people learn about money since it was launched in 1994



Over 76,000
hours volunteered by our colleagues to help local communities

£3.8 million
raised for good causes by colleague giving and fundraising

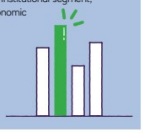
Payment of
£2.17 billion
in tax was made to the UK Government in 2022 which supported central government and local authority spending[3]

63%
of our active current accounts are customers exclusively banking with us using digital channels through mobile or online



NatWest Group's systems enabled
19,500
new customers to apply for a mortgage online, an increase of **47% from 2021**

£77.8 billion
lending across Business Banking and Commercial Mid-market in our Commercial & Institutional segment, supporting economic growth



We developed the initial iteration of our
Climate transition plan
which outlines the steps we aim to take to at least halve the climate impact of our financing activity by 2030 and achieve our net zero climate ambition by 2050

We supported
over 16,000
young people this year through our CareerSense Programme (over 24,000 since launch in June 2021)



Over 72,000
trees planted by our UK colleagues in partnership with The Conservation Volunteers

(4) Between 1 July 2021 and the end of 2025.
(5) Since launch in Q4 2020 Retail Banking Green Mortgage products only. Green mortgages are available to all intermediaries for all residential and Buy to Let properties with an energy performance rating of A or B and specific new build developer properties. Available for purchase, porting and re-mortgage applications.
(6) Includes additional initiatives approved during 2021 and 2022 which met the criteria for inclusion in the financial capability target.

A strategy to deliver our purpose, driving sustainable returns

Our execution is centred around our purpose, driving sustainable growth through our strategic priorities. We are a relationship bank for a digital world, building ever-deeper and closer connections with our customers throughout their financial lives, enabling people, families and businesses to thrive.

Supporting customers at every stage of their lives

Why it's important

We believe that sustainable growth will come from building closer relationships with our customers and our ability to better serve them at every stage of their lives.

What we have achieved

- We made it easier for our customers to understand their financial health, by providing c.0.7 million financial health checks in 2022. We also initiated proactive contacts to our customers to provide support and information on the cost of living.
- In Retail Banking, we have completed £2.9 billion of Green Mortgages[1] since their launch in Q4 2020, rewarding customers for choosing an energy-efficient home.
- We delivered £77.8 billion of lending across Business Banking and Commercial Mid-market in our Commercial & Institutional segment, supporting economic growth.
- Our support for young people continued with the launch of our new pocket money product, NatWest Rooster Money, which helps children build money confidence and develop positive money habits around saving and spending.

The outcomes it creates

We will leverage the expertise we have across our bank to deliver products and services that are relevant throughout the lifecycles of our customers.

Powered by innovation and partnerships

Why it's important

We need to continually evolve our capabilities, investing in technology and partnerships so we can be a simple, safe and smart bank that is driven by data and digital innovation.

What we have achieved

- We entered into a strategic partnership with the Vodeno Group to help us meet the evolving needs of our business customers as they look to embed financial products in their own propositions and journeys.
- Alongside footballer and campaigner Marcus Rashford MBE, we have created a programme designed to support young people in communities across the UK to learn about and develop a positive relationship with money.
- We launched a collaboration with Workplace owner Meta to offer female business owners training and support, as well as opportunities to expand business connections and networks.
- We launched the NatWest Carbon Planner, a free-to-use digital platform designed to help UK businesses identify potential cost and carbon savings.

The outcomes it creates

By scaling new and existing relationships through technological and digital expertise, we will meet our customers' evolving needs and fulfil our growth ambitions.

We have identified three key growth areas where we can amplify our strategy:

- **Delivering personalised solutions throughout our customers' lifecycles – every customer is an individual.**
- **Embedding our services in our customers' digital lives – being where our customers are.**
- **Supporting our customers' sustainability transitions.**

(1) Green Mortgages are available to all intermediaries for all residential and Buy to Let properties with an energy performance rating of A or B and specific new build developer properties. Available for Purchase, Porting & Re-mortgage applications.

Simple to deal with

By being simple to deal with we will improve both customer journeys and colleague engagement, providing an easier and more intuitive banking experience.

- We now have 10.1 million active digital users. We have 8.9 million customers who have accessed the mobile app and 3.8 million customers who have accessed online banking.
- 63% of our customers who exclusively use digital channels to engage with us, regularly use our mobile app.
- In 2022, Cora, our AI virtual assistant, handled 10.4 million Retail Banking conversations, almost half of which required no human input.
- c.90,000 customers now invest through our digital investment platform managed through the Coutts Investment Centre of Expertise.
- Following our investments to improve customer journeys, over 77% of digitalised new Current and Savings Account openings in Retail Banking were completed without human intervention in 2022.

Through understanding our customers better and being simple to deal with we can offer more relevant products, more quickly and at the right time.

Sharpened capital allocation

Effective deployment of capital and efficient portfolio discipline enables targeted investment, helps manage risk and ultimately drives sustainable returns.

- We continue to deliver on our commitment to invest c.£3 billion over 2021-2023 with an increasing focus on growth (2).
- In 2022, NatWest Group announced the creation of the Commercial & Institutional business segment, which brings together the best of our expertise to better support our non-personal financial customers' needs.
- The majority of the commercial loan sale to Allied Irish Banks, p.l.c. (AIB) and the majority of the non-tracker mortgage sale to Permanent TSB Group Holdings p.l.c. (PTSB) were complete by the end of 2022 and we expect the tracker mortgage sale to AIB to complete in 2023.
- £5.1 billion shareholder distributions were paid and proposed for 2022.
- We provided £24.5 billion in climate and sustainable funding and financing in 2022 towards our £100 billion target.(1)

We will continue to deploy our financial and non-financial capital to create value for our stakeholders and society over the long term as well as generating sustainable returns.

(1) In October 2021, having surpassed our previous 2020–2021 £20 billion target during H1 2021, NatWest Group announced an ambition to provide £100 billion climate and sustainable funding and financing between 1 July 2021 and the end of 2025.

(2) The guidance, targets, expectations, and trends discussed in this section represent NatWest Group plc management's current expectations and are subject to change, including as a result of the factors described in the Risk Factors section of the 2022 NatWest Group plc Annual Report on Form 20-F. These statements constitute forward-looking statements. Refer to Forward-looking statements in the Annual Report on Form 20-F.

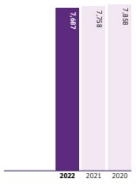
Measuring our performance

Financial measures

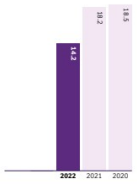
Income (£m)



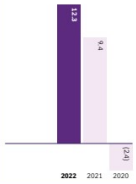
Operating expenses (£m)



CET1 ratio (%)



Return on tangible equity (%)



✓ Achieve income in the Go-forward group, excluding notable items of around £12.8 billion[2].

✓ Achieve a c.3% reduction in Go-forward group operating expenses excluding litigation and conduct costs[4].

✓ Aim to end 2022 with a CET1 ratio of around 14%.

✓ Achieve return on tangible equity for NatWest Group of 14-16% in 2023[6].

Why it is important

Delivering long-term sustainable performance.
Run a safe and secure bank.

Our performance

Total income increased by 26.1% to £13,156 million compared with 2021. Income in the Go-forward group[1], excluding notable items[2] increased by £2,989 million, in the year to £13,063 million, exceeding our income guidance for the year.

(1) Performance on a Go-forward group basis (NatWest Group excluding Ulster Bank RoI) will not be reported going forward. Included to align with targets provided during 2022.
(2) £146 million (2021 – £210 million).

Operating expenses were £71 million lower than in 2021.

Other operating expenses[3] in the Go-forward group were £201 million, or 2.9% lower, in line with our target of a c.3% reduction[4].

(3) Operating expenses excluding litigation and conduct costs of £385 million (2021 – £466 million).
(4) £6,648 million (2021 – £6,849 million).

The CET1 ratio remains robust at 14.2%.

The 170 basis point reduction compared with 1 January 2022[5] primarily reflects distributions and linked pension accruals of c.310 basis points partially offset by the attributable profit, c.190 basis points.

(5) On 1 January 2022 the proforma CET1 ratio was 15.9% following regulatory changes.

We achieved a return on tangible equity of 12.3%. This is net of a £1.0 billion attributable loss from our continued withdrawal from the Republic of Ireland.

(6) As per target which was updated during 2022.

Alignment with our strategy and areas of focus

How we measure our progress and our future priorities

Income excluding notable items is expected to be around £14.8 billion in 2023.

Cost:income ratio (excl. litigation and conduct) below c.52% or c.£7.6 billion of operating costs in 2023.

Continue to expect that the CET1 ratio will be in the range of 13-14% over the medium term.

Continue to target a sustainable return on tangible equity for the group of 14-16% over the medium term.

Read more: Our investment case on page 10 and in our Outlook statement on page 11. For details on how the KPIs are aligned to executive directors' remuneration refer to our Annual remuneration report on pages 138 to 153.

Key

Supporting customers at every stage of their lives
Powered by innovation and partnerships
Simple to deal with
Sharpened capital allocation
Climate
Enterprise
Learning
Achieved
On track
Not achieved

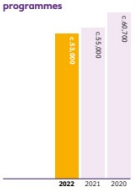
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Non-financial measures

Climate and sustainable funding and financing (£bn)



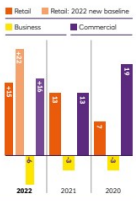
Supporting enterprise through unique programmes



Build up and strengthen a healthy culture



Net Promoter Score (NPS)



✓ Provide an additional £100 billion of climate and sustainable financing and funding between 1 July 2021 and the end of 2025.	✓ Support the removal of barriers to UK enterprise growth through the provision of learning, networking, and funding interventions.	✗ Achieve our Culture target of 83 points as measured through the Our View colleague survey[1].	✓ Increase the likelihood that customers will recommend our brands and achieve NPS targets for our core customer-facing businesses.

Why it is important

A guardian for future generations. To be a leading bank in the UK helping to address the climate challenge.	A good citizen. Remove barriers to UK enterprise growth.	A responsible and responsive employer. Build up and strengthen a healthy culture.	Honest and fair with customers and suppliers. Build up and strengthen a healthy culture.

Our performance

In 2022 we provided £24.5 billion of climate and sustainable funding and financing, towards our £100 billion target.

This took our cumulative total since July 2021 to £32.6 billion towards our target to provide £100 billion climate and sustainable funding and financing by the end of 2025.

- Climate and sustainable finance and funding provided towards our £100 billion target.

In 2022 we have supported 48,000 young people and 53,000 individuals and businesses through our enterprise programmes, with 269,000 customer interventions delivered. Of those supported:

- 34% were people from ethnic minority backgrounds.
- 32% businesses were purpose-led.
- 59% support provided to women
- 90% were in regions outside London and southeast England.

In 2022 we narrowly missed our target on Culture of 83 by one point.

In 2022 we changed our Culture measurement calculation methodology from the Financial Services Culture Board (FSCB) methodology to the Willis Towers Watson (WTW) methodology, as we no longer participate in the FSCB survey.

- NatWest Retail Main Bank NPS exceeded its target by 1 point. There was an additional improvement of 7 points driven by a methodological change[2].
- Despite missing its NPS target in 2022, NatWest Business Banking continues to rank 3rd compared with its high-street competitors.
- NatWest Commercial & Mid-Market met its 2022 target by retaining 1st position versus its high street competitors.

Alignment with our strategy and areas of focus

How we measure our progress and our future sustainable long-term targets

Funding and financing provided to support climate and sustainable activities in line with our climate and sustainable funding and financing inclusion (CSFFI) criteria.	Support provided to individuals, businesses and young people through enterprise programmes and customer interactions, to start, run or grow a business.	Annual Our View colleague sentiment survey.	NatWest Retail Banking NPS 23 or be 3rd; NatWest Business Banking NPS -6 or be 3rd; NatWest Commercial Banking NPS 17 or 1st.
Read more: Our climate-related disclosures on pages 54 to 63 and in our Climate-related Disclosures Report.	**Read more: Our purpose-led areas of focus on pages 26 and 27 and in our ESG Disclosures Report.**	**Read more: Our colleagues section on pages 46 to 49 and in our ESG Disclosures Report.**	**Read more: Our customers section on pages 42 to 44.**

(1) All scores shown are for NatWest Group and include Ulster Bank RoI. To enable like-for-like year-on-year comparisons, all scores shown are based on the WTW calculation methodology.

(2) During 2022, a methodological change was made to retail NPS measurement which resulted in an uplift in NPS scores for all brands including NatWest. 2022 performance has been measured removing the impact of this positive change. 2023 goals have been set from a new +22 baseline which takes into account the positive impact of the methodological change.

Any information contained on websites linked or reports referenced in this section is for information only and will not be deemed to be incorporated by reference herein.

The guidance, targets, expectations, and trends discussed in this section represent NatWest Group plc management's current expectations and are subject to change, including as a result of the factors described in the Risk Factors section of the 2022 NatWest Group plc Annual Report on Form 20-F. These statements constitute forward-looking statements. Refer to Forward-looking statements in this document.

Building long-term value

Our ambition is to champion potential, helping people, families and businesses to thrive. Aligned to our purpose are three focus areas where we believe we can make a long-term, meaningful contribution to our customers, colleagues and communities: climate, enterprise and learning.

Our areas of focus contribute to UN Sustainable Development Goals (SDGs):



As signatories of the UN Principles for Responsible Banking, our ambition is to align our strategy with the 2015 Paris Agreement and the UN SDGs[1]. As well as highlighting activity that relates to each of the SDGs above, case studies throughout this report reference positive impacts mapped against other SDGs.

Our ambition (9)

Climate

A leading bank in the UK helping to address the climate challenge

Our ambitions and targets [2]

2050	achieve net zero by 2050 across our financed emissions, Assets under Management and our operational value chain.
£100bn	provide climate and sustainable funding and financing between 1 July 2021 and the end of 2025.
-50%	at least halve the climate impact of our financing activity by 2030, against a 2019 baseline, and align with the 2015 Paris Agreement.
50%	reduce carbon intensity of our in-scope Assets under Management by 50%, against a 2019 baseline.
-50%	reduce our direct own operations[3] carbon footprint by 2025.

Enterprise

Removing the barriers to enterprise

Our targets

250,000	interventions delivered to start, run or grow a business in 2022.[4]
35,000	individuals and businesses supported through enterprise programmes in 2022.[4]
30,000	youth interventions supported through enterprise and entrepreneurship 2022.[4,6]
60%	of support provided to women.[5]
75%	of support based in regions outside London and southeast England.[5]
20%	of support provided to individuals from ethnic minority backgrounds.[5]
20%	of support provided to those with a purpose-led business or business idea.[5]

Learning

Building financial capability and resilience

Our targets

15m	financial capability interactions delivered between January 2020 and December 2023.[7]
2m	additional customers helped to start saving between January 2020 and December 2023.[8]

(1) The Sustainable Development Goals (SDGs) are a collection of 17 non-legally binding interlinked global goals set forth by the UN for countries and governments. These are included only as indicative guidance for the proposed aim of each area of focus and NatWest Group makes no representation, warranty or assurance of any kind, express or implied, or takes no responsibility or liability as to whether the areas of focus further the objective or achieves the purpose of the indicated SDG.

(2) Refer to section 1.2, 1.3 and 3.3 in the NatWest Group Climate-related Disclosures Report for further detail on our climate ambitions and SBTi targets.

(3) Against a 2019 baseline. Direct own operations is defined as Scope 1, Scope 2 and Scope 3 (paper, water, waste, business travel, commuting and work from home) emissions. It excludes upstream and downstream emissions from our value chain.

(4) Represents approximate number of interventions delivered and individuals supported through enterprise programmes during 2022, which is based upon data provided by third parties delivering these interventions without further independent verification by NatWest Group.

(5) Demographics cover uniquely supported individuals and youth interventions supported.

(6) Youth interventions supported through enterprise and entrepreneurship activity is a new metric for 2022.

(7) Includes additional initiatives approved during 2021 & 2022 which met the criteria for inclusion in the financial capability target.

(8) Includes instances where customers had existing savings with other banks and transferred them into a NatWest Group account.

(9) The guidance, targets, expectations, and trends discussed in this section represent NatWest Group plc management's current expectations and are subject to change, including as a result of the factors described in the Risk Factors section of the 2022 NatWest Group plc Annual Report on Form 20-F. These statements constitute forward-looking statements. (1) Refer to Forward-looking statements on pages 170 and 171 of this document for cautionary statement on Climate and ESG disclosures . .

Read more in the NatWest Group plc 2022, the Climate-related Disclosures Report and ESG Disclosures Report.

Our 2022 performance

Climate

£32.6bn

cumulative contribution towards £100 billion climate and sustainable funding and financing target[1]

2021: £8.1bn (1 Jul – 31 Dec)

41.5%

of EPC C or better rated homes in our UK Mortgage portfolio for which EPCs are available[2]

2021: 38.3%

92.58%

of votes cast were in favour of our first Say on Climate resolution

£2.9bn

Retail Banking Green Mortgage completions since launch[3]

2021: £0.7bn since launch

79%

of our lending activities by exposure as at 31 December 2019, covered by 2030 sector emissions reduction targets, validated as science based by the SBTi

-46%

reduction in emissions in our direct own operations[4]

2021: -44%[5]

Enterprise

269,000

interventions delivered to start, run or grow a business in 2022[6]

2021: c.200,000

53,000

individuals and businesses supported through enterprise programmes in 2022[6]

2021: c.55,000

48,000

young adults engaged in enterprise and entrepreneurship activity in 2022[6,7,8]

90%

of support based in regions outside London and southeast England[7]

2021: c.75%

34%

of support provided to individuals from ethnic minority backgrounds[7]

2021: c.26%

32%

of support provided to those with a purpose-led business or business idea[7]

2021: c.52%

59%

of support provided to women[7]

2021: c.60%

Learning

5.1m

financial capability interactions delivered by 31 December 2022 against the 2023 target[9]

Cumulative 2020 to 2022: 14.07m

0.5m

additional customers helped to start saving by 31 December 2022 against the 2023 target[10]

Cumulative 2020 to 2022: 1.7m[11]

(1) In October 2021, having surpassed our previous 2020-21 £20 billion target during H1 2021, NatWest Group announced an ambition to provide an additional £100 billion climate and sustainable funding and financing between 1 July 2021 and the end of 2025.

(2) As at 31 December 2022 £138.8 billion, 68%, of the total residential mortgage portfolio had EPC data available. In addition to the Retail Banking portfolio, during Q2 2022, EPC data became available for the Private Banking portfolio for all periods.

(3) Since launch in Q4 2020. Green Mortgages are available to all intermediaries for all residential and buy-to-let properties with an energy performance rating of A or B and specific new build developer properties, Available for Purchase, Porting & Re-mortgage applications.

(4) Against a 2019 baseline. Direct own operations is defined as Scope 1, Scope 2 and Scope 3 (paper, water, waste, business travel, commuting and work from home) emissions. It excludes upstream and downstream emissions from our value chain.

(5) Historic values are updated from values reported in 2021. This is due to updated bills, data provision and extrapolations.

(6) Represents approximate number of interventions delivered and individuals supported through enterprise programmes during 2022, which is based upon data provided by third parties delivering these interventions without further independent verification by NatWest Group.

(7) Demographics cover uniquely supported individuals and youth interventions supported.

(8) Youth interventions supported through enterprise and entrepreneurship activity is a new metric for 2022.

(9) Includes additional initiatives approved during 2021 & 2022 which met the criteria for inclusion in the financial capability target.

(10) Includes instances where customers had savings with other banks and transferred them to their NatWest Group account.

(11) Includes additional 144k customers for 2021 and 2020. The customers helped start to save criteria was revised in April 2022 to reflect products aligned to the ambition.



Learning case study

Helping young people to thrive

NatWest Group collaborates with footballer and campaigner Marcus Rashford

All young people deserve to feel financially secure and fulfil their potential.

Yet 81% of young people today say they are uncertain about their financial future[1]. And 56% of 12- to 17-year-olds don't feel confident about managing their money[2].

We want this to change.

But we know that for this to happen, we must think beyond money management and practical financial education. We know we must also help young people overcome the emotional and psychological obstacles blocking their success.

That's why we have created a programme for 8- to 18-year-olds that aims to help them develop their self-belief as well as their money confidence.

NatWest Thrive is a unique collaboration between NatWest Group, the National Youth Agency (the national body for youth work) and footballer and campaigner Marcus Rashford MBE.

It's built around three pillars: the redemptive power of (forging a new) identity; delivery via trusted adults and role models; and connection to the young people's interests and passions.

As such, NatWest Thrive is about people, relationships, mentoring and contact with role models to create community and connection. It's why the programme is primarily delivered face-to-face, in relevant, safe places for young people and with trusted adults.

In spring 2022, we launched the programme's pilot scheme to 135 young people in three youth clubs in London, Manchester and Sunderland.

Following that, over the summer in 2022, we rolled out a 12-week NatWest Thrive programme to 12 more youth clubs, reaching more than 800 young people across the UK during 2022. Results from the summer programme are hugely encouraging: 98% say their money confidence has improved after four sessions and 83% say it has improved their mental wellbeing[3].

Our vision is now to scale the programme to improve the financial confidence of many more young people.



(1) London Institute of Banking and Finance.
(2) Money Advice Service.
(3) NatWest Thrive Impact report – our summer impact 2022.

Any information contained on websites linked or reports referenced in this section is for information only and will not be deemed to be incorporated by reference herein.

Strong brands to meet customers' needs

Retail Banking

Through the NatWest, Royal Bank of Scotland and Ulster Bank brands, we provide a comprehensive range of banking products and related financial services including current accounts, mortgages, personal unsecured lending and personal deposits. We're here for customers whenever and wherever they need us – from our mobile app and online banking, through to our contact centres and high-street and mobile branches.

Private Banking

Private Banking is the Investment Centre of Expertise for NatWest Group, servicing all client segments across Retail, Premier and Private Banking. We provide private banking and wealth management services to UK-connected high-net-worth individuals and their business interests through the Coutts brand. We continue to focus on delivering the best client experience through a proactive engagement model which supports clients across both sides of their balance sheet – improving returns by deepening client relationships and enhancing our digital banking capabilities to make it easier for clients to deal with us.

Commercial & Institutional

Commercial & Institutional provides the expertise and tailored solutions needed by businesses, from entrepreneurs through to large corporate organisations, multi-nationals and financial institutions. As the biggest bank for UK businesses, we're also known for supporting businesses that want to start, scale and grow. Our people, combined with our digital channels, help our broad set of customers manage their day-to-day business activity, support them through good and challenging times, and work with them to plan for the future.

Contribution to NatWest Group



For further information on the financial performance of our operating segments refer to the Financial review section on pages 6 to 17 of the Annual report on Form 20-F.

Retail Banking

In Retail Banking, we're focused on helping our customers reach their financial goals. From budgeting and saving, to supporting our customers to make more sustainable choices, our mobile app combined with exceptional colleagues are helping us to deliver our goal to become a relationship bank in a digital world. We want to deepen relationships with our customers by supporting them at key moments in their lives, improving their financial health and resilience and supporting younger generations to plan for the future. By providing personalised insights, we are helping our customers to understand how decisions they make today could affect their future finances.

Total income
£5,646m
2021: £4,445m

Net loans to customers
£197.6bn
2021: £182.2bn

Operating expenses
£2,593m
2021: £2,513m

Rooster Money new card openings
c.89,000

Operating profit
£2,824m
2021: £1,968m

Customer needs met digitally
88%
2021: 85%

Return on equity
28.6%
2021: 26.1%

UK mortgage flow share
13%
2021: 12%

Customer deposits
£188.4bn
2021: £188.9bn

Climate and sustainable finance and funding in 2022
£4.0bn

Our priority is to support our customers as the cost of living rises and, by engaging customers early, we can help those facing financial hardship. We have conducted c.0.7 million financial health checks in 2022, 76,000 more than in 2021, and have proactively spoken to 1.45 million customers to provide additional support through regular customer care campaigns. Our 'Know My Credit Score' tool and budgeting help in our mobile app assists our customers to act promptly and understand their credit options. We have created an online cost of living hub which shares resources and support provided by us and third parties, and which has attracted 346,000 visits. Our £4 million of donations provides support through collaboration with organisations including Citizens Advice, The Trussell Trust, Step Change and PayPlan.

Our ambition is to provide the best digital experience with access to the best people. We remain focused on improving the digital experience of our customers, with 88% of their needs currently met digitally. We've reached our highest ever levels for customer satisfaction, which reflects the increasing number of customers who use us as their main bank. Our AI virtual assistant, Cora, fully supported 48.4% of customer queries without handing over to a human and we've made it easier to book an appointment in our branches or through our video channel with over 330,000 video appointments held in 2022.

Our digital platforms help to make banking safe and more convenient. Our digital account opening journey has significantly reduced the associated cost of fraud and improved the experience for our customers with record satisfaction levels. We've made payments simpler and safer with a new payment hub in our app, while biometrics now enable 46% of payments. Our 'Card reveal' feature makes it easy to access card details and complete online purchases and 'PIN reveal' allows our customers to view their PIN on their app, with over one million pin reveals displayed in the mobile app, supporting our customers with their sustainability transitions by significantly reducing the number of PIN reminder slips sent.

We know how important it can be to save for unexpected bills, so we have supported c.0.5 million customers to start saving in 2022. We have increased the interest rate for our digital regular savers and Round Ups make it easy to save little and often with over 1.25 million customers signed up since it was launched last year, saving a total of £138 million. We're helping future generations to create good habits through Rooster Money and saw c.89,000 new card openings to build financial resilience

across the family. Saving towards the future can be difficult so it is important to help our customers make their money work harder and grow over the longer term. Our digital investing platforms, NatWest Invest and Royal Bank Invest, allow customers to invest from £50 into a choice of five funds depending on their approach to risk and time horizon. 31,000 new investment accounts were opened on the platform in 2022.

We want to help our customers to use credit responsibly and have regularly reviewed our affordability checks to prevent customers from over-stretching. Our overdraft cost calculator has been used over 3.5 million times since its June launch and our soft search for credit cards gives customers the eligibility information they need without impacting their credit score. We launched a 30-month 0% balance transfer card which can help customers pay off outstanding debt, and our buy-now-pay-later offering gives our customers choice and control around how they manage their money with safeguards in place to help customers to use the facility responsibly.

Despite volatility, we remained in the mortgage market throughout the period with our full product selection and continued to provide a consistent service to help our customers to purchase their homes, growing our UK market flow share to 13% with total mortgage balances of £187.2 billion. We supported 232,000 customers to move to a new deal and allowed customers to remortgage six months before the expiry of their existing mortgage, to help our customers to secure a rate earlier in a rising rate environment. Our over payment process has been simplified and our higher LTV products continue to provide customers with the flexibility they need in a challenging environment. Our investment in digitising the mortgage journey has resulted in 19,600 applications digitally and allowed us to launch a market first purchase decision in principle and remortgage journey with price comparison websites.

How we use our money today could change the world tomorrow and help to make a greener planet. We've had over 531,000 visits to our climate change hub and 333,000 customers have used our carbon tracker to understand and reduce their carbon footprint. To provide sustainable growth in the future, our aim is to encourage our customers to make more sustainable choices through lifestyle changes and home energy efficiencies. We supported our customers with £2.2 billion in Green Mortgages, offering a lower rate for purchasing or re-mortgaging an energy efficient home. Our cards are now made from 86% recycled plastic, which is expected to save 23 tonnes of plastic and 50 tonnes of carbon dioxide a year.

Building money confidence

Teaching positive financial habits with Rooster Money

We believe it's vital for young people to feel confident and capable with money.

Enabling financial capability early in life is an essential tool for developing good money management in adulthood. And as young people adopt technology at an earlier age, the need to build these skills in a digital environment becomes even more important.

That's why, in 2021, we decided to acquire Rooster Money and integrate it into our wider youth proposition. The pocket-money app and pre-paid debit card enable parents to help their children to feel financially capable by teaching budgeting skills and encouraging saving to develop positive habits.

The contactless card gives children aged six and over more independence, while staying safe with spending notifications, limits and freezes managed within the app. Rooster Money's chore and star capabilities can also help children with their understanding of money from the age of three. As well as reaffirming our purpose-led ambition to attract and support the financial needs of more young people and their families, we also believe the Rooster Money proposition makes sound commercial sense.



The number of 18-year-olds in the UK is set to grow 20% by 2030[1] and there is increasing competition to provide this cohort with a digital pocket money proposition in their younger years. We believe we will be able to take a bigger share of the bankable (but currently unbanked) youth market by leveraging our strong customer base, offering a solution to parents for banking young people all the way through childhood.

In the short term, this will help us to engage customers in other youth products (for instance, growing Junior ISA volumes), increase the wider engagement of current parent customers and attract new families to us.

In the longer term, these young customers will graduate into primary adult customers, driving value for the bank for decades to come.

(1) Office for National Statistics.

Private Banking

Within Private Banking, we serve the banking, lending and wealth management needs of UK-connected high-net-worth individuals and their business interests through the Coutts & Co brand, and the investment needs of customers from across NatWest Group via our Investment Centre of Expertise. As the first UK-headquartered private bank to become a certified B Corp, clients can rely on Coutts & Co to provide exceptional service, while managing their wealth responsibly.

Total income
£1,056m
2021: £816m

Net loans to customers
£19.2bn
2021: £18.4bn

Operating expenses
£622m
2021: £520m

AUMA
£33.4bn
2021: £35.6bn

Operating profit
£436m
2021: £350m

AUM net new money
£2.0bn
5.6% of opening AUMA balances

Return on equity
24.5%
2021: 17.0%

Climate and sustainable financing and funding in 2022
£0.2bn

Customer deposits
£41.2bn
2021: £39.3bn

NatWest Invest/ Royal Bank Invest/ Coutts Invest users
c.90,000
2021: c.79,000

In 2022, we continued to put our climate ambition into action. From 1 February 2022, the Personal Portfolio Funds available through Coutts Invest, NatWest Invest and Royal Bank Invest include a commitment that a minimum of 50% of assets by value in each fund will be on a net-zero trajectory. From 18 July 2022, the Coutts Managed Funds and discretionary portfolios include a commitment that a minimum of 20% of assets by value in each fund or portfolio will be on a net-zero trajectory. As of the end of the year, £6.5 billion of AUM are invested in funds that are on a net-zero trajectory[1] and are decarbonising at an average rate of 7% per annum.

Building on existing Coutts mortgage products that offer discounted arrangement fees for purchasing a more energy-efficient home (EPC rating of A or B) or for making improvements to improve energy efficiency (EPC rating C and above) Coutts launched a pilot for its Greener Homes Service. Providing bespoke advice to help participating customers overcome the barriers to retrofitting, the service includes a free energy performance assessment, details of retrofit costs and benefits, and the option to implement recommended measures through a pre-vetted supply chain. 30 customers are participating in the initial pilot of the Greener Homes Service, with further enhancement planned. In 2022, Coutts completed £241 million in mortgages for properties rated EPC A or B.

Business exit is an incredibly important moment for any entrepreneur. Drawing on the knowledge and insights of entrepreneurs who have been through the process, we've created a free programme to share 20-plus years of our research. In March, we launched a series of video masterclasses from industry experts available to all entrepreneurs, regardless of whether they are a client. In 2022, we have taken 45 owners and Financial Directors, representing ownership of more than £572 million of shareholder value, through our Business Exit Programme.

Continuing the collaboration with Business Growth Fund, we have now raised over £80 million through the UK Enterprise Fund (UKEF). The fund is closing the year in a strong position with over 47 companies now backed. These companies are well spread across the UK with 73% outside of London and the South East, diversified across new economy sectors, with over 20% of companies actively addressing climate change.

(1) Net-zero trajectory is a commitment, credible plan or action taken to achieve net-zero greenhouse gas emissions by 2050.

The UKEF is proud to support female founders and their businesses with over 22% of the portfolio invested in female-led companies, alongside supporting initiatives such as investment-ready workshops run by BGF, NatWest Bank and Coutts & Co, as well as executive coaching for female and ethnic minority founders.

In December 2022, in line with our aim to build financial capability and lower barriers to investing, we completed a nationwide launch of our Digital Assist for Investment service across the NatWest Bank and Royal Bank branch network. Branch customers now have the option to speak to a Digital Wealth Manager who can give them guidance on how to use our Automated Advice service. This involved training over 1,730 branch staff across 650+ branches in the UK. The colleagues trained reported a 157% increase in their confidence to talk about investments and our branch-based Senior Personal Bankers helped over 100 customers in December with their long-term savings goals.

In October 2022, Coutts & Co Collective was launched, making it easier for clients to donate to charity. Supported by the Charities Trust, the scheme allows clients to give to causes that support social and environmental issues. By donating collectively, clients can make a bigger difference to the causes they care about with high-impact, pre-vetted charities.

The chosen charities are The Prince's Trust, Future Frontiers and Ocean Generation. 100% of all donations are received by the charities.

In June 2022, we launched our new Coutts & Co digital service through our app to our personal clients. We have introduced several easy-to-use digital features such as integrated biometrics for enhanced security, digital cheque deposits, spend controls, first-time beneficiary payment authorisation as well as authenticated web and app messaging (live chat). Client adoption has been high, with over 80% client activation[1].

(1) Of clients invited to use the service.

Accelerating the interactive entertainment sector

Coutts championing high-growth businesses

We're committed to helping clients reach their potential: connecting with, and contributing to our wider society. By championing new businesses, we can encourage growth and create value for our clients and the economy.

To help us achieve this, Coutts was delighted to launch a new Accelerator programme during 2022 for ambitious individuals within e-sports, gaming, social media or streaming.

The interactive entertainment industry has experienced healthy growth in recent years which is expected to continue to increase in the post-pandemic world. Valued at US$197 billion in 2022, the global gaming market is now on track to surpass US$225 billion by 2025.[2]

The Coutts Interactive Entertainment Accelerator programme was designed to help UK entrepreneurs scale their businesses in this growing sector and take them to the next level.

Delivered in partnership with NatWest Accelerator, this bank-wide initiative allowed entrepreneurs to access and learn from business and industry experts. Whether they had been thinking about setting up a business or been running a business for a while, this fully-funded programme helped them access



new markets, fund expansion or attract new talent to build more effective teams.

During the six-month programme, applicants benefited from a range of useful services, including one-to-one coaching with our experienced business acceleration managers, access to thought leadership and events, a network of like-minded peers, focused support from experts and co-working spaces in one of our nationwide hubs.

We believe this help can give interactive entertainment entrepreneurs essential early assistance, empowering them to grow their business further and faster and overcome challenges to reach their full potential.

(2) Newzoo, Global Games Market Report 2022.

Commercial & Institutional

In 2022, NatWest Group announced the creation of Commercial & Institutional, which brought together the Commercial, NatWest Markets and RBS International customer businesses. The new segment is a step forward in becoming a simpler bank to deal with, bringing the best of our expertise to better support our customers' needs. In a particularly challenging environment, Commercial & Institutional effectively supported customers manage the increasing costs of doing business from both interest rate and inflationary pressure, continued developing innovative digital capabilities and remained committed to providing award-winning sustainable financing solutions to support customers to transition to greener business practices.

Total income
£6,413m
2021: £4,838m

Net loans to customers
£129.9bn
2021: £124.2bn

Operating expenses
£3,744m
2021: £3,757m

Business accounts opened (incl.Mettle)
130,000

Operating profit
£2,547m
2021: £2,241m

Tyl payments processed
69.5m
2021: 39.3m

Return on equity
12.2%
2021: 10.9%

Climate and sustainable finance and funding in 2022
£20.3bn

Customer deposits
£203.3bn
2021: £217.5bn

We remain fully committed to supporting businesses to manage the increasing costs of doing business with a comprehensive package of support measures. In 2022, we contacted over 0.8 million customers to offer information, support and advice through proactive communications, our specialist relationship managers and local business hubs positioned across the UK. Alongside our extensive outreach programme, our Business Current Accounts remained available without a minimum charge, while we froze the standard published tariffs and committed to no increases to published fees for 12 months. Moreover, through our deep sector expertise and service offering, we tailored support for the most impacted sectors, including a £1.25 billion lending package for the farming industry, as part of a range of supportive measures for our c.40,000 agricultural customer base, which is facing extreme impacts on supply costs and profit margins – this is in addition to other support measures, such as capital repayment holidays and increased overdraft limits.

Establishing the new segment enables us to build even longer and deeper relationships with our customers, by providing support at each stage of their journey. As the biggest bank for businesses in the UK and a committed champion of startups, we are removing barriers to enterprise, tackling inequality and supporting growth by helping entrepreneurs achieve their ambitions. In 2022, we supported over 53,000 individuals or businesses through enterprise programmes, with over 269,000 interventions delivered. Of those supported, 32% were purpose-led, 34% were from ethnic minority backgrounds and 59% provided support to women. We also offer the UK's largest free business accelerator network which continued to grow this year with the launch of our new Enterprise Hub to support our Accelerator programme at the University of Warwick, and the opening of a new hub in Southampton, taking our total number of Enterprise Hubs to 14. Our commitment to new businesses resulted in the opening of over 130,000 new Business Accounts (including Mettle Accounts) in 2022.

By extending the reach of our proposition, we provide a more comprehensive product offering to our customers, where and when they need it. In 2022 our corporate FX services were used by over 650 new corporate and institutional customers for the first time. In addition, our award-winning FX and long-standing expertise in fixed income, capital markets, and bespoke financing solutions, supported customers in navigating the challenging macro environment and managing their risk. We are accessible for customers through our expansive UK footprint and presence across Europe, Asia and the US.

Guided by our purpose and our aim to deepen customer relationships, we continue to support our customers with their ESG and climate-related finance needs. In 2022, the Commercial & Institutional segment provided £20.3 billion in climate and sustainable funding and financing. Our role as a cornerstone lender in the first greenfield solar transaction in the UK since 2018 demonstrates our commitment to leadership in renewables sector project financing. The syndicated loan will enable our customer to fund the construction of up to 1GW of solar capacity across the UK and the Netherlands, enough to power over 300,000 households, while creating local employment opportunities. To ensure as many SMEs as possible can realise the bottom-line benefits from their carbon-reduction efforts and innovation, we reduced the lower threshold for our Green Loans offering for SMEs from £50,000 to £25,001, so more businesses can access funding to transition to more sustainable practices. We also launched our digital Carbon Planner, a free-to-use digital platform designed to help UK businesses identify potential cost and carbon savings.

We continue to be a leading underwriter of Green, Social and Sustainability finance after winning several awards at the Environmental Finance Bond Awards 2022 (including 'Lead manager of the year, social bonds – local authority/municipality award'), as well as being presented the 'Leadership in Sustainable Banking award' at the Jersey Finance Sustainable Finance Awards 2022.

Finally, as a relationship bank in a digital world, we continue to evolve our digital, data and technology capabilities to provide an easier and more insightful banking experience for customers. In 2022, digitally-initiated commercial service requests more than doubled compared to the previous year. In addition, 83% of our customers are actively using digital channels to interact with us. Improvements in our digital lending journey now enable business customers to utilise our self-serve digital channels to apply for up to £50,000 of borrowing and receive an automated decision within minutes. Alongside this, our innovative merchant acquiring platform Tyl saw over £3.1 billion of transactions in 2022 – a 104% increase from 2021. Furthermore, we announced a strategic partnership with Vodeno Group to create a banking-as-a-service business for the UK market. This will enable us to create new and exciting opportunities for our customers to seamlessly integrate financial solutions into their ecosystems, including payments, deposits, point-of-sale credit and merchant cash advances.

Financing sustainability goals



Providing expertise and collaboration

As a relationship bank, we strive to anticipate our customers' future needs. In 2022, NatWest Group was able to help Compass Group, a world-leading food service business, understand how sustainable financing could help it achieve its long-term sustainability goals.

Serving billions of meals each year in more than 40 countries and employing and engaging with over 500,000 people, its aim is to do so in a way which better benefits people and the planet.

The company's sustainability strategy seeks to maximise the positive social and environmental impact it has across its value chain and includes a commitment to reach net-zero emissions across its global operations and value chain by 2050. The Sustainable Development Goals illustrated are ones towards which Compass Group strive to make a positive impact.

Given the scale of Compass Group's operating expenditures, and the way these contribute to its sustainability targets, assistance in formulating the design of its sustainable financing framework was needed. This required a fresh approach which wasn't pre-determined by market precedent.



NatWest Group's breadth of structuring experience in the sustainable finance market meant Compass Group was fully supported in carrying out a review of expenditures which aligned with its sustainability ambitions across outcomes relating to environmental as well as social factors. Each was carefully assessed for the contribution towards its strategic targets, to ensure only the most material projects were included.

Importantly, facilitating the investment in sustainability for Compass Group should prove to be a key driver for growth for the business, helping to meet its clients' environmental and social commitments.

This, we believe, is the value that Commercial & Institutional can provide to customers and stakeholders. By bringing together a depth of expertise and collaboration across the bank we are there for our customers' current and future needs.

Stakeholder engagement

We have a reciprocal relationship with all our stakeholders – knowing that when they succeed, so do we. The insights we gain by listening and engaging with them enable us to improve outcomes for customers, society and the environment. Below we provide some examples of how we collaborate with our key stakeholders to create value.

How we engage across the company

How we engage at Board level

How we engaged	What we discussed
Customers – the people and businesses we serve	
• Supporting businesses through our Accelerator Programme and Specialist Accelerators, as well as Business Builder and Business Insights Hub. • Regular, monthly sessions with people with lived experience of vulnerability. • A big data study, using customer data to explore the relationship between ethnicity and banking. • Carbon Planner tool.	• The UK Government's levelling-up agenda for strengthening communities, supporting diverse entrepreneurs, removing barriers to enterprise, providing access to our wide range of partners, business accelerator hubs, and our thought-leadership material. • Insights from charitable organisations and those with lived experiences on how our proposed products and propositions work for their circumstances, taking into account their perspectives. • Innovative data-led research exploration into the access and some attitudinal analysis of financial products and services in the UK. • A free-to-use tool to help UK businesses identify potential cost and carbon savings.
• Meetings with customers during a Board regional visit to Bristol. • At a customer 'live lounge' conducted by our Group Sustainable Banking Committee, non-executive directors were joined by our frontline Financial Health and Support telephony team.	• A broad range of topics including the impact of rising inflation, firms' sustainability strategies, support for new customers who have fled the invasion of Ukraine and future growth plans. • The cost of living crisis, the mental health of frontline colleagues and how to respond to the growing issue of supporting customers in vulnerable situations.
Investors – providers of our capital and funding	
• Meetings with our senior management, presentations at industry conferences and investor roundtables.	• Progress on the delivery of our strategy and future priorities, updates on the financial performance of our business, our funding requirements and deep-dives on business segments.
• The Chairman, Group CEO and Group CFO took part in quarterly results presentations and 169 meetings with our largest investors. • The Chairman, Group CEO and other non-executive directors engaged with private investors at two virtual shareholder events.	• Progress against strategic priorities, financial performance, interest rate sensitivity, capital returns policy, environmental, social and governance topics, regulation and the macroeconomic environment. • As above, plus the business of the 2022 AGM and NatWest Group customer support initiatives under our Retail Banking strategy.

Key ESG topics for our stakeholders

We re-evaluate our key ESG topics annually and refresh where appropriate to ensure that our list continues to be comprehensive, relevant and reflective of our stakeholder groups' perspectives. For this year's assessment we've taken into consideration the evolving landscape and engaged with a number of internal and external stakeholders. The findings guide our reporting and decision-making, ensuring we remain focused on the right issues. This year's review once again confirmed that, as a responsible business, our approach to a broader range of ESG topics is of great significance to our stakeholders.

Read more about our assessment and approach to materiality in relation to our ESG disclosures in our 2022 ESG Disclosures Report.

For further information on how stakeholder considerations influenced the Board's discussions and decision-making, refer to our section 172(1) statement on pages 40 and 41, and our Corporate governance report on page 80.

Outcome of engagements	Challenges we faced
• In 2022 we supported 1,300 entrepreneurs via the Accelerator Programme, of which 50% are female-led businesses. New content modules delivered on the cost of trading, financial resilience, and action tools on energy and cost saving. • 21 products have now been reviewed by the panel and product owners are working through proposed adaptations and changes. • The findings were discussed informally with the Bank of England, Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA). • Businesses, including those who do not bank with us, have been able to use NatWest Group's free tool to help them identify potential cost and carbon savings. • The Board heard about the challenges and opportunities facing these customers and how the bank could best support them. Learnings were taken into the Board's wider approach to assisting customers. • Non-executive directors heard customer conversations to better understand the challenges faced by colleagues in supporting customers in vulnerable situations.	**Engaging effectively with customers on our climate agenda, while many face significant cost pressures, has been challenging. We believe there is an opportunity for our customers and NatWest Group, because tackling climate change is not only good for the planet and the communities we serve, but good for our business too. However, demonstrating this link is a challenge which requires clear and sustained messaging and engagement.** **We'll continue to develop our customer climate hub, to bring customers engaging and educational resources on energy efficiency and climate change, as well as our carbon footprint tracking tool in collaboration with Cogo, which allows customers to see a rolling monthly view of their carbon footprint.**
• Institutional equity and fixed income investors and research analysts gained a deeper understanding of our business and were able to provide feedback on our strategic priorities. • An open dialogue was maintained with institutional equity and fixed income investors, updating investors on progress and keeping the Board informed about their views and priorities throughout 2022. • Private investors had the opportunity to engage with Board members, to ask questions prior to voting on the business of the AGM, and to hear from Board members and senior management on current topics.	**At our 2022 AGM, the resolution to re-elect Frank Dangeard as a director was passed with lower support than expected following a recommendation to vote against by a proxy adviser under their methodology on over-boarding. We acknowledged the situation in our post-AGM announcement and re-confirmed the Board's view that Mr Dangeard has sufficient time to devote to NatWest Group. The Chairman also engaged with institutional shareholders to discuss their concerns.**

Any information contained on websites linked or reports referenced in this section is for information only and will not be deemed to be incorporated by reference herein.

How we engaged	What we discussed
Regulators – whose rules and expectations we seek to comply with	
• With regulators, including the PRA, on managing the financial risks from climate change. Including submissions regarding compliance approach taken to regulatory standards and the Bank of England Climate Biennial Exploratory Scenario (CBES).	• The outcomes of climate stress testing of NatWest Group and the management response determined, and how climate-related risks have been integrated within the enterprise-wide risk management framework.
• Engagement with the FCA on our implementation of the new Consumer Duty.	• High level of importance on achieving good customer outcomes, how we intend to implement the Duty,
• PRA attendance at July 2022 Board meeting and FCA attendance at February 2023 Board meeting.	• PRA: 2022 Periodic Summary Meeting outputs; FCA: 2022 Firm Evaluation Letter outputs.
• Non-executive directors engaged with regulators through continuous assessment and proactive engagement meetings.	• Strategy, financial performance, capital distributions, Board and Committee priorities, Board effectiveness, governance, the risk and control environment, financial crime, ring-fenced bank independence, Consumer Duty and the cost of living.
Colleagues – the people who deliver our purpose	
• Our View opinion survey.	• The results of Our View, which asked for colleague opinion on topics such as purpose, wellbeing, inclusion, leadership and reward.
• Wellbeing Champions, Inclusion Champions, Our Colleague Experience Squad and employee-led networks.	• Topics that influence our culture, including wellbeing, new ways of working, diversity, equity and inclusion, colleague capability and remuneration.
• One of our weekly huddles with UK frontline colleagues.	• A spotlight on climate change, focusing on reducing household energy bills and carbon emissions, as well as developing colleagues' capability to have conversations on climate.
• Colleague Advisory Panel (CAP).	• Remuneration, our values, customers in vulnerable situations and future skills.
• Meet the Board event, and a range of informal events.	• Future challenges and opportunities for the Board, how effectively we are living our purpose, our role in addressing climate change, and supporting future generations.
Communities – the places where we have an impact	
• Charity relationships, customer giving channels, colleague fundraising and volunteering.	• How to best help the most vulnerable in society through our colleague and customer giving channels. We facilitated colleague and customer donations, and supported our colleagues to volunteer their skills and expertise, creating positive outcomes for a range of good causes.
• Support for young people through MoneySense, Island Saver, and our new programme with Marcus Rashford, NatWest Thrive.	• MoneySense provides curriculum-linked activities for delivery in the classroom, while Island Saver helps young people with money skills and climate change awareness.
• Meetings with the UK Government, devolved administrations, NGOs, think tanks and academia.	• Our climate-related ambitions, support for customers and businesses through the cost of living crisis, assistance for startups, the Rose Review and our work with female entrepreneurship more widely and help for businesses to recover from COVID-19 and grow.
• Meetings with community groups during a Board visit in the southwest of England.	• How we live our purpose through community engagement and how future support could best be provided.
• Board climate training, led by the University of Edinburgh.	• Managing climate-related institutional change, climate measurement and influencing.
Suppliers – where we source our goods and services	
• Regular review meetings with key suppliers.	• Supplier review meetings have a standing agenda point to discuss the Supplier Charter, which includes elements such as modern slavery and human rights issues.
• Risk management – onboarding new suppliers.	• We launched a new inherent risk questionnaire to simplify how we interact with our suppliers and stakeholders.
• Meetings with key suppliers during a Board regional visit to Bristol.	• Suppliers' experiences of working with NatWest Group and future opportunities and challenges, including the suppliers' ESG agendas.
• Board training on embedding purpose in our supply chain.	• Embedding our purpose in our supply chain and increasing diversity and inclusion with existing and new suppliers.

Outcome of engagements	Challenges we faced
• Transparency on the NatWest Group's exposure to climate-related risks and the response in order to manage the risk effectively. • Transparency on our implementation, consistent with the FCA's stated ambition to iterate on approach with firms. • The Board heard from the PRA and FCA on the key messages in their respective letters. • Directors gained a better understanding of the regulators' key areas of interest and provided feedback on those topics.	**We recognise that the success of the Consumer Duty requirements is dependent upon a collaborative approach being taken between firm and regulator. The change in expectations set out by the FCA is in tune with our Purpose and Values. To this end we have committed to close and continuous ongoing engagement with the regulator throughout the implementation period. This will help us to identify where we need to make change to evidence compliance with the guidelines and help make sure this is reflected in our policies and procedures and culturally across the organisation.**
• Our View September 2022 response rate was one of the highest in the last 10 years. In the face of an unprecedented external environment, our results overall show resilience. • Our Wellbeing Strategy was supported by over 1,400 Wellbeing Champions. We continuously support our employee-led networks, which have around 24,000 members globally. • Improved colleague awareness of climate issues, the impact of the cost of living and how to talk about these issues with customers. • The CAP continued to provide an important communication channel between the Board and colleagues. • Improved dialogue between the Board and colleagues on current issues.	**The rising cost of living impacted our colleagues creating new challenges for them through rising inflation and energy prices. We provided financial support to the colleagues most likely to be impacted in addition to our normal pay cycle, reflected the economic climate by making a significant investment in our annual pay review effective April 2023 and continue to support colleagues with our suite of financial wellbeing materials. Focusing on our lowest paid colleagues we immediately implemented the changes to the real living wage and also increased our lowest starting salary to £22,000 effective April 2023, an increase of 16% since April 2022.**
• £7.6 million donations through our mobile app, Reward Account and online donations. The bank, our customers and colleagues together raised over £12 million for three DEC appeals, supporting humanitarian relief efforts in Afghanistan, Ukraine and Pakistan. Our colleagues raised over £3.8 million for good causes and volunteered 76,230 hours. • 76,086 teachers registered to use MoneySense resources, with 12,028 registering in 2022. • We sponsored the UK Pavilion at COP27. We worked with the SME Transformation Taskforce to support SME businesses. • A package of support launched for customers, colleagues and communities to help with the rising cost of living. • Insights into our work with these groups, a demonstration of the Board's support and the reiteration of the bank's commitment to such projects. • Building on directors' foundational climate knowledge with insights into more technical areas.	**Following COVID-19, charities faced challenges in generating income and meeting increased demand. Schools gradually reopened to external volunteers, but new ways of working for colleagues led to a slower-than-anticipated uptake of volunteering opportunities.** **The rise in the cost of living further impacted people and communities creating new challenges with customer and colleague giving. Stakeholder engagement helped us to better understand the immediate and potential longer-term impacts of the cost of living and to act quickly to support charities and organisations in the community.**
• Non-compliance with the bank policy schedule is dealt with on a case by case basis and includes engaging with the supplier to identify potential remediation measures. • Supply Chain Services implemented a new tool for assessing and understanding the risk profile associated to any service. The new Inherent Risk Questionnaire replaced the Service Impact Assessment. • The Board gained an external perspective of NatWest Group and strengthened supplier relations. • Directors gained insights into how NatWest Group engages with its suppliers, including cost and service, sustainability and stakeholder impacts.	**Where suppliers that underwent the EcoVadis assessment performed below the global average, we are implementing corrective improvement plans to support them in improving their performance on key sustainability topics.** **We have built objectives into our core strategy to enable our suppliers to improve and help us cultivate a more responsible and diverse supply value chain.**

Section 172(1) statement

In this statement, we describe how our directors have had regard to the matters set out in section 172(1) (a) to (f) of the Companies Act 2006 (section 172) when performing their duty to promote the success of the company.

Board engagement with stakeholders

The Board reviews and confirms its key stakeholder groups for the purposes of section 172 annually. For 2022, they remained customers, investors, regulators, colleagues, communities and suppliers.

Examples of how the Board has engaged with key stakeholders, including the impact on principal decisions, can be found in this statement and on pages 36 to 39 (stakeholder engagement) and pages 80 to 91 (Corporate governance report).

Supporting effective Board discussions and decision-making

Our purpose continues to influence Board discussions and decision-making.

Our Board and Committee terms of reference reinforce the importance of considering both our purpose and the matters set out in section 172. Our Board and Committee paper template includes a section for authors to explain how the proposal or update aligns with our purpose and a separate section for them to include an assessment of the relevant stakeholder impacts for the directors to consider.

Our directors are mindful that it is not always possible to achieve an outcome which meets the expectations of all stakeholders who may be impacted. For decisions which are particularly challenging or complex, an optional page in our paper template provides directors with further information to support purposeful decision-making. This additional page uses the Blueprint for Better Business framework as a base and is aligned to our broader purpose framework.

Principal decisions

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

This statement describes three examples of principal decisions taken by the Board during 2022.

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

Overseeing our future strategy

Factors considered:

What was the decision-making process?

The Board considered NatWest Group's future strategy over three sessions in March, June and October 2022, reviewing and confirming its support for a plan to amplify our strategy.

In March 2022, the Board considered insights arising from a comprehensive programme of stakeholder listening. Directors joined breakout groups to discuss key themes, collaborating with the executive management team and Junior Management Team members. In June 2022, the Board agreed key areas of focus and a vision for our purpose-led strategy, including exploring the opportunities for sustainable growth. Then, in October 2022, the Board reviewed and confirmed its support for a strategic plan consistent with the ambition discussed in June 2022, including the identification of three growth areas where we can amplify our strategy. Throughout the process there was strong engagement and constructive debate among directors and management.

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

Stakeholder impacts were considered throughout. The process began with stakeholder listening, engaging on the trends affecting our customers' financial lives, as individual households and institutions, and as networks and communities. Participating stakeholder groups included customer segments, shareholders, colleagues, suppliers and external third parties such as politicians and non-government organisations. Views were also gathered on what banking services and products might be appropriate in future. Framing the discussion in the context of how these stakeholders viewed NatWest Group provided a strong foundation from which to amplify our strategy.

How was our purpose considered as part of the decision?

Building on the outputs of our stakeholder listening, our purpose-led strategic approach considered where and how we could drive new growth by becoming more relevant, and more trusted, in supporting our customers' financial lives. Our purpose was the core governing objective in defining our three growth areas and supported the assessment of specific initiatives.

Actions and outcomes

In October 2022 the Board confirmed its support for a plan to amplify our strategy and will oversee progress in 2023.

Further information on our strategy, including the three growth areas, can be found on pages 22 to 23.

Approving the initial iteration of our Climate transition plan

Factors considered:



What was the decision-making process?

At the Annual General Meeting on 28 April 2022, shareholders supported our 'Say on Climate' resolution with 92.58% of votes cast in favour. This included the intention to publish a climate transition plan for the company to demonstrate progress against our ambition to at least halve the climate impact of our financing activity by 2030, and to reach net zero by 2050 across our financed emissions, assets under management and operational value chain.

Following this, management continued work on the initial iteration of our Climate transition plan and provided regular updates to the Board, Group Sustainable Banking Committee and Group Audit Committee. Board and Committee feedback was incorporated into the development process, including the way in which progress against the plan would be measured and reported. Key dependencies discussed included government policies, customer behaviour changes and new technology development.

An external perspective was provided to the Board by NatWest Group's independent climate change adviser, Lord Stern. Board decision-making was further informed by a training session with Dr Sarah Ivory of the University of Edinburgh, NatWest Group's learning partner on climate change transformation.

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

Directors were mindful of their duties under section 172 during their review of the initial iteration of our Climate transition plan and wider related considerations. Support for third parties to deliver their climate ambitions, including customers and suppliers, was discussed. The Board also considered how we were supporting customers and colleagues to ensure their actions complemented our long-term strategic direction on climate change. The Board supported management's decision to recommend that all suppliers complete an external assessment to help the transition of our operational value chain to net zero and nearer-term own operational footprint targets. During their visit to Bristol in September 2022, the directors discussed with suppliers their experience of undertaking the assessment and its impact.

How was our purpose considered as part of the decision?

Creating and implementing the initial iteration of our Climate transition plan is critical to fulfilling our purpose and being sustainable.

Actions and outcomes

In February 2023, the Board approved the initial iteration of our Climate transition plan included in the Climate-related Disclosures Report. Progress will be tracked at executive and Board level.

Appointing a new non-executive director

Factors considered:



What was the decision-making process?

On 30 September 2022, the Board approved the appointment of Roisin Donnelly as an independent non-executive director with effect from 1 October 2022. The appointment followed a rigorous search process led by the Group Nominations and Governance Committee (Group N&G) on behalf of the Board.

To support the Board's decision, a detailed paper described how Ms Donnelly had been identified as the preferred candidate. Directors considered how the role specification criteria had been met and how the appointment would enhance the Board's composition, including its diversity.

Following discussion, the Board approved the appointment, noting that Ms Donnelly would bring extensive customer, digital, ESG, marketing and branding experience to the Boardroom.

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

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

From a customer perspective, the Board discussed how Ms Donnelly's strengths in consumer markets, data and digital transformation would enhance the Board. It would also help with supporting business transformation and growth.

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

How was our purpose considered as part of the decision?

Ensuring a diverse Board with an appropriate balance of skills, knowledge and experience is critical in delivering effective Board oversight of the business, which in turn supports our purpose.

Actions and outcomes

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

Further details on the search process leading to Ms Donnelly's appointment can be found in the Group N&G report on pages 92 and 93.

Stakeholder focus areas

Listening, engaging and partnering with our stakeholders is vital for the success of our business. It helps us to address our operational impacts and improve outcomes for customers, society and the environment. In the following sections we detail some of the notable ways we have continued to support our stakeholders' requirements during 2022.

Building strong financial foundations

Scaling our financial capability education



Improving financial capability sits at the heart of the bank's purpose.

We want to provide the people, families and businesses we serve with the skills and the confidence to manage their money better and take control of their finances.

And with financial wellbeing concerns rising due to the increases in the cost of living, this has never been more important. In addition to our flagship financial capability programme for young people, MoneySense, our Financial Foundations pilot programme aims to help develop good money practices and financial resilience for adults.

Initially, the Financial Foundations programme centred around a series of free, interactive workshops facilitated by trained bank colleagues for small groups of young adults, job seekers and survivors of domestic abuse.

However, the financial challenges of 2022 meant there was a much wider interest in the programme from new audiences. As well as local authorities, social housing groups and higher education teaching staff, we received enquiries from large corporate and commercial clients.

A.S. Watson Group is one such example. It operates over 1,300 retail stores across the UK and Republic of Ireland including the Savers and Superdrug brands, which employ around 20,000 people across these locations.

We delivered the Financial Foundations workshops as a webinar to a range of their colleagues, covering topics such as budgeting, planning for the unexpected and managing debt. The response to the sessions was excellent, with the group's head of Payroll, Shared Services & Reward noting that they prompted 'reflection on money management, personal spending habits and other important topics for our colleagues in this climate'.

Following the success of these workshops, and to meet the growing number of requests, the Sustainable Banking team is now developing a variety of delivery methods to allow us to reach these new audiences at scale.

Customers

Listening and responding to our customers

We want to know what our customers think about us. It helps us better understand their needs and improve the products and services we offer.

To achieve this, we have in place a framework of independent customer feedback surveys that measure satisfaction across our business segments. In 2022, Net Promoter Scores (NPS) for Retail Banking improved by 9 points for NatWest and 12 points for Royal Bank of Scotland. NatWest Business Banking NPS declined by 3 points and improved by 7 points for Royal Bank of Scotland. In Commercial Banking NPS improved by 3 points for NatWest and remained unchanged for Royal Bank of Scotland. Refer to page 44 for the full breakdown of scores.

The insight from these surveys is reported at the most senior levels of the bank and plays a crucial role in how we address the evolving requirements of our customers. In 2022, we incorporated customer feedback into a range of innovative solutions.

Against the backdrop of the cost of living crisis during 2022, we have helped our customers better manage their finances with a range of new features. Our new credit score feature in our mobile app helps customers understand their credit score, supporting them to improve their financial health. Meanwhile, the new Round Ups feature in our mobile banking app helps our customers save their small change every time they use their debit card or contactless device. To help build customers' financial capability and make sure they're getting the most from our digital tools, we introduced new insights into the Spending newsfeed on the NatWest and Royal Bank apps including Know Your Credit Score, Travel Checklist and Energy Anniversary. We are also the first UK high street bank to launch a bill-splitting function – Split Bill – in our banking app using Open Banking, making it simple to split bills with friends and family.

To support more startups with digital solutions we collaborated with Business Data Group (BDG), a business formation service, to make it simpler for new businesses to find our startup support and services, including accessing and opening our Start-Up Account, more quickly and easily. Collaborating with Cogo, we also launched the pilot of an app to selected manufacturing and transport business banking customers to track their carbon footprint using their transaction data.

Making banking more accessible

We recognise that our customers' individual needs are all different. As such, we aim to make banking as accessible as possible for everyone, offering our customers the ability to choose from a variety of face-to-face, digital and remote options. Customers can now also take greater digital control of their finances through our mobile app, including the ability to open an account, check their credit score and apply for a mortgage.

Our app is compatible with both Apple and Android accessibility features such as inverting colours and magnifiers, as well as biometric log-ins. We have also introduced dark and light modes for customers with visual impairments or dyslexia.

Our AI virtual assistant, Cora, supports customers via the 'message us' feature in the app, and our contact centre colleagues are just a click away with the 'tap to call' function. When our customers want the reassurance of a face-to-face conversation remotely, our video banking service is available. We offer customers who require additional support a range of accessibility services, such as accessible statements in braille, large print and audio CD. BT's Relay UK service also supports customers with hearing impairments through a type-to-talk service, while accessible card readers, rubber signature stamps, braille card wallets and our talking ATM service are other key accessibility features.

Supporting our customers

At any time, a customer may find themselves either in a vulnerable situation or caring for a loved one experiencing a vulnerability. During 2022, we were aware that cost of living pressures had the potential to make this a reality for many of our customers. As such, we initiated proactive contacts to customers in 2022 to offer support and information on the cost of living. We also launched an online cost of living hub to share resources and tools, and to inform customers of the support that is available to them through third parties. And throughout the volatility in the mortgage market in 2022, we remained open for business, ready to serve our customers.

We continued to support our customers in other ways as well. In collaboration with SafeLives, we have reached more than 2,000 domestic and economic abuse survivors through a £1 million Circle Fund donation. The Fund has supported frontline services to provide crisis intervention, increase safety and help support recovery, after a dramatic rise in cases of abuse over lockdown. Our support for young people continued with the launch of our new pocket money product, NatWest Rooster Money, which helps children build money confidence and develop positive money habits around saving and spending. We have built a smooth connection to Rooster Money via the main mobile app and there have been c.89,000 Rooster Money card openings in 2022.

Cost of living support

As part of our response to the cost of living crisis the bank took action on a range of fees and charges for personal customers in financial difficulty and those receiving support from its Financial Health & Support team, this included waiving fees on products where appropriate to support customers experiencing financial difficulty. We also delivered 5.1 million financial capability interactions in 2022, including carrying out c.0.7 million financial health checks. Meanwhile, to provide certainty to SMEs, Business Current Accounts remained available without a minimum charge and we froze the standard published tariffs on these accounts for 12 months. We also announced a £1.25 billion lending package to our c.40,000 farming customers within the agriculture sector.



Evolving sustainable design for our branches

We know that achieving our overall climate ambition means significantly reducing our direct own operations emissions. Making our branches more sustainable is a vital part of this.

Since 2020, we have been on a journey to improve and embed sustainable practices across all our branch locations.

This has included improving the EPC ratings of our buildings for better energy efficiency, the reuse of furniture to minimise waste, and the use of natural, biodegradable or recycled and recyclable materials. In addition, LED lighting is being deployed throughout all our branches as standard to further reduce energy consumption.

In 2021, we delivered our first sustainable hub in Bristol: a dynamic space providing a safe and relaxing environment, focused on accessibility and supporting vulnerable customers, and which achieved the SKA[1] Silver accreditation

Importantly, this also provided valuable insights into the practices we can deploy elsewhere in other branches.

Since then, we have completed a further four sustainable hubs, all of which have also achieved the SKA Silver accreditation and, importantly, evolved our learning each time.

We have recently completed refurbishments at our Milton Keynes branch and in our drive towards 'circularity' we continue to maximise the use of pre-loved furniture and recycled materials, as well as implementing technology such as heat pumps and building management systems to assist with reducing energy requirements. This includes daylight energy saving lighting systems and timing clocks for external signage and marketing digital displays.

But our ambition is to do more. We will continue to improve our design practices and use only the most sustainable suppliers and materials with an aim of achieving Gold SKA accreditation in early 2023.

(1) The SKA assessment scheme, which has been developed by the Royal Institution of Chartered Surveyors (RICS), assesses the environmental impact of refurbishments and fitouts.

NPS

Our brands are our main connection with customers. We track customer advocacy for our key brands and services using the Net Promoter Score (NPS), a commonly used metric in banking and other industries across the world.

Overall NPS

Banking:

NatWest Retail[1]

Q4 2022	Q4 2021
22	13

Source: Strategic NPS benchmarking study run through InMoment, England & Wales

NatWest Business

Q4 2022	Q4 2021
-6	-3

Source: MarketVue Business Banking from Savanta, England & Wales, Businesses with a turnover up to £750k

NatWest Commercial

Q4 2022	Q4 2021
16	13

Source: MarketVue Commercial Banking from Savanta, England & Wales, Businesses with a turnover above £750k

Royal Bank of Scotland Retail

Q4 2022	Q4 2021
10	-2

Source: Strategic NPS benchmarking study run through InMoment, Scotland

Royal Bank of Scotland Business

Q4 2022	Q4 2021
-6	-13

Source: MarketVue Business Banking from Savanta, Scotland, Businesses with a turnover up to £750k

Royal Bank of Scotland Commercial

Q4 2022	Q4 2021
12	12

Source: MarketVue Commercial Banking from Savanta, Scotland, Businesses with a turnover above £750k

Customer Trust

NatWest

Q4 2022	Q4 2021
75%	74%

Source: Yonder reputation tracker, GB, Trust among Retail Banking customers

Royal Bank of Scotland

Q4 2022	Q4 2021
67%	70%

Source: Yonder reputation tracker, GB, Trust among Retail Banking customers

Retail Banking[1]

Account opening

Q4 2022	Q4 2021
32	28

Source: Strategic NPS benchmarking study run through InMoment

Mortgage

Q4 2022	Q4 2021
24	14

Source: Strategic NPS benchmarking study run through InMoment, based on 12-month rolling.

Mobile Banking

Q4 2022	Q4 2021
49	45

Source: Strategic NPS benchmarking study run through InMoment

Online Banking

Q4 2022	Q4 2021
33	25

Source: Strategic NPS benchmarking study run through InMoment

(1) Smartphone interviewing was integrated into the NPS survey from December 2021 to provide a better respondent experience, maintain robust sample sizes and keep us in line with industry best practice. Due to this methodology change we have seen an uplift in NPS scores for all brands.

Investors

A key milestone was reached in March 2022 when we agreed an off-market purchase of 550 million shares from UK Government Investments, for a total of £1.2 billion. This took its stake in NatWest Group below 50% for the first time since 2008. Further selling by the government as part of its ongoing trading programme has reduced its stake further throughout the year.

Private investors

We engaged with our private investors through our Annual General Meeting, virtual shareholder events, and our annual and strategic report communications.

The AGM was held in April 2022 and, for the first time in two years, we were able to invite shareholders to attend in person. We also held a live virtual shareholder event a week prior to the AGM where shareholders were invited to submit questions in advance of and during the virtual event. A General Meeting and Class Meeting of ordinary shareholders were also held in August 2022 to approve a special dividend and an associated share consolidation of ordinary shares.

In addition, we held a further virtual shareholder event in November 2022. At this event, we spoke about the initiatives NatWest Group is involved in to support its customers. We also published a shareholder update on the topic, which set out initiatives such as the package of support for customers, colleagues and communities to help with the rising cost of living.

The virtual shareholder events remain a key component of our stakeholder engagement programme and provide an opportunity for shareholders to hear from, and ask questions of, Board members and senior management on topics such as innovation, enterprise, sustainability and our financial performance. It is our intention to deliver further virtual events in 2023. Our shareholder updates and recordings of our virtual shareholder events can be found on our website at natwestgroup.com.

Institutional investors

Our well-established programme of global institutional investor engagement saw management host 322 meetings with equity investors and 242 meetings with fixed income investors in 2022. The financial year began with a presentation on our annual results in February 2022, hosted by our Chairman, CEO and CFO. This live event took place virtually and included an interactive Q&A session to give research analysts and investors an opportunity to ask questions and engage with our management team. Further quarterly results presentations took place virtually alongside the release of our financial results in April, July and October 2022.

Our CEO and CFO engaged regularly with UK Government Investments and our largest active institutional investors throughout the year to update them on our progress. As in-person contact resumed in 2022, we hosted a hybrid programme of in-person and virtual one-to-one and group meetings with institutional investors from around the world.

Meetings with investors covered key topics such as progress against our financial targets, interest rate sensitivity, capital return policy, environmental, social and governance topics, regulation and the macroeconomic environment. Throughout the year as market movements and investor sentiment were influenced by the war in Ukraine, energy prices, inflation and the wider macroeconomic outlook, meetings became more focused on these areas and the health of the UK consumer and corporate environment.

Environmental, Social and Governance (ESG) issues were regularly discussed at our one-to-one meetings and we also engaged with specialist socially responsible investors via meetings with ESG analysts from institutional investors, and increased interactions with sustainability rating agencies. We further enhanced our ESG reporting suite with an inaugural Non-financial Information Datasheet to allow investors and analysts to more easily find data on our key ESG metrics. Our climate reporting received external recognition, winning the Best Climate-related Reporting Award at the 2022 ESG Reporting Award and the Accounting for Sustainability Finance for the Future Award.

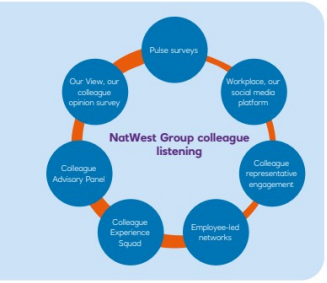
Our ongoing Investor Relations programme also allows investors the opportunity to hear from the wider management team. In June 2022 we hosted a data round table, inviting investors and analysts to join a presentation and Q&A on our data strategy. Throughout the year, our business CEOs and CFOs attended industry conferences and hosted broker-organised meetings with groups of investors on their specific business areas, allowing investors the opportunity to hear about their strategic priorities and recent business performance.

Say on Climate

At the Annual General Meeting on 28 April 2022, shareholders supported our 'Say on Climate' resolution with 92.58% of votes cast in favour. This included the intention to publish a climate transition plan for the company to demonstrate progress against our ambition to at least halve the climate impact of our financing activity by 2030, and to reach net zero by 2050 across our financed emissions, assets under management and operational value chain.

Colleagues

Our colleagues are the heart of our business. By supporting them in what they do and by ensuring that NatWest Group is a great place to work, we can champion their potential and collectively deliver our purpose.



Listening to our colleagues

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

Over 48,000 colleagues (82%) across all countries and levels participated in our September 2022 Our View survey[1]. At 82% this response rate is one of the highest seen in the last 10 years. In the face of an unprecedented external environment, our results remain strong and show overall resilience. However, lead measures in culture, wellbeing and purpose fell marginally, while our inclusion measure remained stable and, despite the challenging backdrop, our measure on building capability improved. Across all comparable categories, NatWest Group sits an average of six percentage points above the Global Financial Services Norm (GFSN) and two percentage points above the Global High Performance Norm (GHPN).

Regular interactions with our employee representatives such as trade unions, elected employee bodies and works councils are a vital means of transparency and engagement for us. We frequently use these sessions to discuss developments and updates on the progress of our strategic priorities.

Our CAP was set up in 2018 to help promote colleague voices in the boardroom. In 2022, topics included remuneration (including executives and the wider workforce), our values, future skills and the work being done to support customers in vulnerable situations. We also remain committed to respecting our employees' rights of freedom of association across all our business.

For full details on CAP refer to the Corporate governance report and ESG Disclosures Report.

Performance and reward

Performance management at NatWest Group is a continuous approach aligned to our ambition to be a learning organisation and to enable all colleagues to thrive and reach their full potential. At the core of our performance management approach are regular performance and development conversations between line managers and their colleagues.

Refer to our ESG Disclosures Report for full details.

We continue to ensure employees are paid fairly for the work they do and are supported by simple and transparent pay structures in line with industry best practices. We keep our policies and processes under review to make sure we do so. In the UK, our rates of pay continue to exceed the Living Wage Foundation benchmarks and we make sure employees performing the same roles are paid fairly. We help colleagues to have an awareness of financial and economic factors affecting our performance through quarterly Results Explained communications and Workplace Live events with our Group Chief Executive Officer and Group Chief Financial Officer. We announced a range of support measures in response to the cost of living crisis. In September 2022, we provided a permanent uplift in salary to our lower-paid employees. This targeted action was complemented by a one-off cash payment in January 2023 to most of the workforce and further significant investment in fixed pay from April 2023.

Refer to our Directors' remuneration report for full details on our remuneration policies, cost of living support and employee share plans.

Helping colleagues realise their potential

We're investing in our workforce to deliver long-term, sustainable performance by providing our colleagues with the capabilities and future skills they need to fulfil their potential, underpinned by our ambition to be a learning organisation.

We have a significant focus on supporting all colleagues to be ready for the future and have given colleagues two days per year dedicated to developing priority future skills aligned to our Critical People Capabilities. Our ambition is that half of our elective learning is focused on future skills by the end of 2023. Our technology is supporting this by providing personalised recommendations for learning, gigs, mentors and jobs, based on colleagues' skills and skills interests.

(1) NatWest Group Our View results exclude Ulster Bank RoI.

We're supporting our businesses to close the future skills gap, through reskilling programmes, predominantly in data and digital. In 2022, 167 colleagues were reskilled for a new future-focused role or have actively participated in a programme. Our Talent Academy continues to develop our highest potential colleagues, with over 3,300 colleagues participating in 2022. Our pipeline of future talent continues with over 1,135 joining the bank through our early career programmes as interns, graduates and apprentices, which focus on building future skills including through our new financial crime graduate programme and our award-winning internship programme.

Our leadership and coaching faculty supports leaders and their teams. Our new leadership experience, Thrive, launched in 2022 to give our leaders opportunities to learn and grow to lead themselves and their people. Our succession planning is purpose-led with our framework spotting, developing and mobilising a diverse pool of our most promising talent, supported by our ExCo.

Refer to our ESG Disclosures Report for full details on how we support colleagues to realise their potential.

Supporting our colleagues' wellbeing

We recognise that taking proactive action to support positive mental health and wellbeing plays a crucial part in achieving our purpose. We were delighted to collaborate with Just Ask A Question (JAAQ), a new mental health and wellbeing social media platform that provides information from trusted experts, academics and people with lived experience.

In addition to our mental health focus, we worked with Peppy Health, launching a brand new digital product on menopause providing colleagues and their partners with online support and access to specialist clinicians.

To support our colleagues' financial wellbeing we launched the new NatWest Group Benefits Hub in 2022. The online platform allows employees to manage their benefits, pension and to access NatWest Group offers and discounts.

We also have a new market-leading partner leave policy from January 2023. The policy supports all eligible employees with significantly more time away from work to look after their new child, whether the child has arrived through birth, adoption or surrogacy.

For full details of our partner leave policy, wellbeing focus, including financial wellbeing, refer to our ESG Disclosures Report.

Colleague highlights

167
colleagues reskilled as part of a formal programme
2021: 20

1,135
graduates, apprentices and interns hired
2021: 1,057

39%
increase in elective learning vs 2020 baseline

35%
elective learning focused on future skills

(**) References to 'colleagues' in this Strategic report mean all members of our workforce (which include contractors and agency workers).



Refreshing our values

As the needs of our stakeholders have evolved, our values have needed to evolve too: to align more closely with our purpose and strategy; to become a simple way of explaining what's important to us; and to help us be the kind of bank all our stakeholders want us to be.

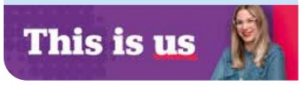
To do this, we refreshed our values through a truly collaborative process. We talked and listened to around 11,000 colleagues, customers, community stakeholders and suppliers to understand what they value personally and what they value from us. And together we created, tested and refined our values with them.

Our refreshed values of being Inclusive, Curious, Robust, Sustainable and Ambitious, were launched to colleagues, customers and communities in February 2022 and now inspire and guide us in everything we do.

These values are helping us to live our purpose on our journey to work as One Bank: to transform we need to be ambitious but sustainable. To work together we must be inclusive and curious and consider broad perspectives, not just work in silos. And, in everything we do, we must bring a robust commitment, act with integrity and make good decisions.

Transformation isn't just about implementing our strategy or updating our technology, it's about thinking and acting differently, and our values are guiding us to do that.

What's more, we're proud to say that these are values that have been created by our people, for our people.



Diversity, equity and inclusion

Creating a diverse, equitable and inclusive workplace is integral to fulfilling our purpose. It enables us to work together to achieve great things with our colleagues, communities and customers. We will stand up for people who are excluded, remove barriers that stop people progressing in their careers and create a safe, happy and healthy environment for all. We want to give everyone who works here, and every customer who comes into contact with us, the chance to succeed and the support to thrive.

Our contribution towards an inclusive workplace

The One Bank Diversity, Equity & Inclusion Action Committee chaired by Jen Tippin, Chief People and Transformation Officer, and Marg Jobling, Chief Marketing Officer, continues to take a focused and impactful approach to diversity, equity and inclusion (DE&I). Three workstreams have been developed to drive action and change.

For full details refer to the ESG Disclosures Report.

Over 36,000 colleagues have enrolled in our learning module Choose to Challenge which educates participants on the importance of challenging non-inclusive behaviours. We have also encouraged colleagues to take other learning modules such as LGBT+ Awareness and Disability Smart, to continue to build a more inclusive workplace in NatWest Group.

We launched a revised and improved Recruitment YES Check to ensure DE&I is front of mind at every stage of the recruitment process. We also introduced Inclusive Interview Ambassadors who are trained in technical aspects of interviewing, along with inclusion and identifying bias, to help bring an objective lens to the recruitment decision-making process. In 2022, we increased our team of ambassadors to over 800 and introduced them in India.

Sponsorship plays a key role in breaking down barriers to help under-represented groups progress into senior leadership roles. We have created a best practice sponsorship guide, with a clear framework to encourage leaders to advance and retain diverse talent, by taking responsibility for supporting and advancing individuals across the organisation.

We highlighted DE&I globally during our Inclusion Week in September 2022. #ThePowerofNow was the theme and events were centred around this topic globally, which included a talk from Dr Grace Lordan, founder of The Inclusion Initiative, as part of our Leadership Thrive Lounge on Leading Inclusively.

We continuously support our eight employee-led networks, which have around 24,000 members globally. We have also refreshed our Inclusion Champion programme for our c.1,000 registered champions.

For full details refer to the ESG Disclosures Report and natwestgroup.com.

We celebrated Race Equality Week in February 2022, with the theme of #ActionsNotJustWords and Black History Month in October 2022, focused on Black Visibility is Power. During Black History Month, a number of events showcased how visibility of Black professionals is driving change, and we published our annual Banking on Racial Equality Taskforce update.

Following its relaunch in 2021, our Ethnicity Advisory Council, comprising nominated external specialists from different industries, continued to meet regularly to provide critical challenge, guidance and direction on our strategy.

For the fifth time, NatWest Poland organised the LGBT+ DIAMONDS AWARDS to recognise individuals and organisations making a real change for LGBT+ colleagues in Poland. The hybrid event had strong engagement with 160 nominations and over 50 partnering companies. NatWest Group was also the headline sponsor of Trans Festival in August 2022, an event in London focused on what businesses can do to support the Trans community. We ranked 49th (up from 83rd in 2018) in Stonewall's UK Workplace Equality Index and were awarded Gold status for inclusion.

We are a signatory of HM Treasury's Women in Finance Charter and our Executive Sponsor for Gender, David Lindberg (CEO, Retail Banking), is part of the external Accountable Executive Taskforce for the Charter. In 2022, we introduced the returnship initiative, which targets the women's returners market, to build our pipeline using a specialist recruitment partner. Our women's engineering reskilling programme, delivered with Code First Girls, won the Champions of Change category at the Management Today DE&I Leadership Awards 2022.

Our Global Accessibility Working Group helps us to be an accessible bank by design, enabling all colleagues and customers to thrive. The group has three focus areas: to ensure colleagues understand what accessibility means and the benefits of inclusive design; to inform colleagues with the knowledge and skills to design and build our policies and processes inclusively; and to ensure accessibility is in our existing methods and frameworks. NatWest Group renewed our leadership status in the UK Government Disability Confident Scheme and we are working with Lexxic, our external neurodiversity specialists, to develop a roadmap to enhance our performance on neurodiversity for colleagues.

Our ambition is to create an inclusive environment where everyone has the same opportunity to progress their career, irrespective of their socio-economic background. In 2022, we created the One Bank Socio-Economic Working Group, to further our work in this area.

For full details refer to the ESG Disclosures Report.

> **'Respect, listening and opening up opportunity are key to an inclusive culture.'**
>
> **Alison Rose**
> Group Chief Executive Officer

Any information contained on websites linked or reports referenced in this section is for information only and will not be deemed to be incorporated by reference herein.

Our progress and targets

Colleague sentiment on inclusivity remained strong in 2022, maintaining a score of 93 percentage points. Although sentiment has remained consistent in all our colleague groups, our focus remains on where scores may vary for our minority colleagues. We ran a smaller pulse survey in June 2022, focused on championing belonging, in which 95 percentage points of colleagues agreed NatWest Group does a good job of highlighting the importance of DE&I.

2022 Our View inclusion score

93%

2021: 93%

+8 vs GHPN (Global High Performance Norm)
+9 vs GFSN (Global Financial Services Norm)

Our Board composition exceeds the FTSE Women Leaders Review (formerly the Hampton Alexander Review) target of a minimum of 40% women's representation on the board by 2025, with a figure of 45% women's representation. We have women representation of 29% on our executive management team with a woman Chief Executive Officer, Chief Financial Officer, Chief Marketing Officer, Chief People and Transformation Officer, and Chief Governance Officer and Company Secretary.

We have a target to have full gender balance in our CEO-3 and above global roles by 2030. At 31 December 2022, we had, on aggregate, 40% women in our top three layers, an increase of 2% since 31 December 2021. This represents an increase of 11% since targets were introduced in 2015.(**)

The mean gender pay gap for NatWest Bank, our largest reporting entity, is 28.7% (median: 31.6%) and the mean gender bonus gap is 30.4% (median: 17.5%). If we include recognition vouchers in our calculation, the bonus gap increases to 52.5% (median 90.2%). This means every colleague who received a small recognition award – for example £10 – is included in the calculations, whether or not they received a bonus. Most colleagues in our more junior jobs only receive fixed pay – a change made to provide more certainty over earnings. We currently have a higher proportion of women in these roles. We believe the figures excluding recognition vouchers are more accurate reflections of our gender bonus gap.

For our full pay gap report refer to natwestgroup.com.

Introduced in 2018, our ethnicity target is to have 14% of colleagues from ethnic minority backgrounds in CEO-4 and above positions in the UK by 2025. At 31 December 2022, of 82% of colleagues who disclosed their ethnicity, we have an aggregate 11% of colleagues from ethnic minority backgrounds in our CEO-4 and above positions. This represents a 3% increase since targets were introduced and remains consistent from 2021. Overall, of those who disclose their ethnicity, 19% of colleagues in the UK identify as being from an ethnic minority background.

In line with our commitment to transparency under the UK Government's Race at Work Charter, we have voluntarily disclosed our aggregated ethnicity pay gap for NatWest Group UK. The mean ethnicity pay gap for NatWest Group is 7.2% (median: 10.3%). The mean ethnicity bonus gap for NatWest Group, excluding recognition vouchers, is 21.8% (median: 16.9%). This year we have broken down our ethnicity pay gaps to compare Asian, Black, mixed/multiple and other ethnic minority colleague's average hourly pay to that of White colleagues for NatWest Group in Great Britain. This highlighted a wider pay gap between Black and White colleagues than the average ethnicity pay gap. The target set in 2021 to increase the number of Black colleagues in CEO-5 and above UK roles is intended, alongside other initiatives, to address underrepresentation in this area.

For our full pay gap report refer to natwestgroup.com.

In 2020 we launched the Racial Equality Taskforce to listen, learn and better understand barriers faced by colleagues from ethnic minority backgrounds. The Taskforce set out 10 commitments in the Banking on Racial Equality Report, including a UK target to have Black colleagues occupying 3% of UK roles (CEO-5 and above) by 2025. At 31 December 2022, we have 1.5% of colleagues who identify as Black in CEO-5 and above roles in the UK, which remains consistent from 2021. Overall, of those who share their ethnicity, 3% of our colleagues in the UK identify as Black.

For our Banking on Racial Equality Report refer to natwestgroup.com.

For a full breakdown of our colleague data, including our gender and ethnicity profiles by level, Refer to our Non-financial information datasheet at natwestgroup.com.

Companies Act 2006, section 414C (8)(c) disclosure

	Male #	Female #
Directors of the company	6	5
Executive employees	69	26
Directors of subsidiaries	182	64
Permanent employees (active and inactive)	31,500	30,600

17 Directors of subsidiaries have not declared their sex.

There were 358 senior managers (in accordance with the definition contained within the relevant Companies Act legislation), which comprises our executive population and individuals who are directors of our subsidiaries.

UK Corporate Governance Code Provision 23: As at 31 December 2022, the gender balance of senior management and their direct reports was 33% female and 67% male. For the purposes of this note, senior management means our executive management team (which includes the Company Secretary).

Our partners and recognition

For full details, refer to our Diversity, Equity & Inclusion pages at natwestgroup.com.



(**) NWG's management structures were revised during 2022. For the purpose of remuneration reporting, the representation targets were set based on the management structures in place at the start of the FY 2022 with performance assessed against these at 31 December 2022. Based on the management structures at the start of 2022, we had 41% women in our CEO-3 and above global roles as at 31 December 2022, an increase of 3% since 31 December 2021. This reflects a 12% increase since the targets were introduced in 2015.

Any information contained on websites linked or reports referenced in this section is for information only and will not be deemed to be incorporated by reference herein.

Communities

As a leading financial firm in the UK, we believe we can make a real and positive difference to people's lives.

Continuing to give back

Our ambition is to support and give back to the communities we operate in. Our direct community investment in 2022 amounted to £13.6 million compared with £7.3 million in 2021, as measured using the Business for Societal Impact benchmarking standard. This includes the funding we make available to support colleague giving and the direct costs of delivering our community programmes.

In 2022, we continued to promote our Do Good Feel Good campaign to give our colleagues opportunities to support the good causes they care about through volunteering their time and fundraising. Across all our fundraising and volunteering programmes, our colleagues gave back £3.8 million and c.76,000 worktime volunteering hours, providing their skills and expertise to support a range of causes.

Our popular challenge events in September 2022 offered colleagues across the UK free access to fundraising events which included walking, running, bungee jumping and abseiling. In addition, we matched all colleague fundraising throughout the month of September. Through this campaign, our colleagues raised £583,276 for charitable causes. Our 2021 Do Good Feel Good challenge events won Best Scheme to Encourage Staff Fundraising at The Better Society Awards in May 2022.

To celebrate Giving Tuesday, a global day of giving held on 29 November 2022, our colleagues donated £200,000 to charities through payroll giving. We also matched customer reward donations, raising £150,000. In recognition of the cost of living crisis, we also held three auctions of rare and collectable banknotes, donating the proceeds to The Trussell Trust, a charity which supports a network of foodbanks across the UK and which has seen demands on its services increase exponentially during 2022.

Community highlights

c.76,000
hours volunteered by our colleagues

£12m
donated to DEC appeals

c.72,000
trees planted

£13.6m
in direct community investment

During 2022, our colleagues and customers donated to three appeals launched by the Disasters Emergency Committee (DEC) to support the humanitarian relief efforts in Afghanistan, Ukraine and Pakistan. This led to a donation of £12 million to the DEC, including a £2.7 million donation from NatWest Group. As a result, the DEC and NatWest Group won Gold for the most effective one-off campaign and Silver for the most innovative collaboration at the 2022 Corporate Engagement Awards.

Through our customer giving channels, including our mobile app, Reward Account and website, we facilitated customer donations amounting to £7.6 million. Our mobile app has proved to be a successful channel for generating additional income for the charity sector and raised over £4.6 million in 2022. In 2022, we introduced three new charities to the list of nominated charities our customers can donate to through their Reward Accounts. The three new charities are linked to our purpose and are helping to support people affected by the cost of living crisis.

Elsewhere Tyl, our card payment provider for businesses, donated £274,785 to charity. For every card payment, Tyl donates to charities and community projects around the country.

Delivering impact in our communities

NatWest Group has three independent, well-established charities, which continue to support specific activities in line with our purpose, including The NatWest India Foundation[1], the Coutts Foundation[2] and NatWest Social & Community Capital[3].

NatWest Social & Community Capital was established in 1999 and is supported by the bank. Its mission is to enable social enterprises, charities and community businesses to make a positive impact on communities across the UK through flexible loan finance.

The charity has a specific focus on organisations delivering employability, education and training for those furthest from the labour market, services for the most disadvantaged and community regeneration, and works with social ventures unable to access mainstream funding. In addition to lending, NatWest Social & Community Capital provides business support and expertise to its clients and has access to a pool of volunteers they can turn to for practical advice.

NatWest Social & Community Capital was recognised as Nationwide Social Lender of the Year 2022 at the UK Enterprise Awards. It was also shortlisted for Social Investment Deal of the Year at the 2022 Social Enterprise UK Awards for a funding deal for social-led business, Northumbria Youth Action, which enabled the company to continue trading and develop young people's skills to help them enter employment.

(1) The Foundation's company registration number (CIN) is: U45200MH2007NPL167933
(2) Charity Registration No: 802643
(3) Charity Registration No: 1079626

Celebrating 15 years' working with The Conservation Volunteers

In November 2022, we were delighted to celebrate 15 years of working in partnership with The Conservation Volunteers, enabling our colleagues to give their time, energy and skills to support vital conservation projects across the UK. Together we have created new woodland areas, built new green parks and restored derelict land to community use. The impact of this work will be felt for years to come.

In 2022, we continued to provide colleagues opportunities to participate in our tree planting programme, helping them to make a positive contribution to tackling climate change, while improving natural environments, enjoying the benefits of being outdoors and working together as a team. In 2022, our colleagues planted c.72,000 trees, with 2,890 planted during a special event at our headquarters at Gogarburn, Edinburgh. This event was attended by our Coutts Scotland colleagues to celebrate Coutts' collaboration with The Queen's Green Canopy, an initiative inviting people and communities to plant a tree to mark the Platinum Jubilee of Her Majesty Queen Elizabeth II and to benefit the environment.

Banking on Racial Equality

Our Banking on Racial Equality report, published in October 2020, set out 10 commitments to our customers, colleagues and communities from ethnic minority backgrounds and the actions – new and existing – that would help us meet those commitments.

On the second anniversary of the report in 2022, we published an update on our progress and identified areas where we still need to improve. To help build a more inclusive culture, we have introduced mandatory training for all colleagues and an ethnicity ally programme.

For the first time, and with oversight from the Board and Group Executive Committee, we have taken a bank-wide approach to assessing the health and diversity of succession planning at CEO-1 and CEO-2 levels for c.200 value-creating and specialist jobs, matching talent with the potential, aspirations and skills required to thrive in these roles.

During 2022, we published 'Time to Change: A Blueprint for Advancing the UK's Ethnic Minority Businesses' with the Centre for Research in Ethnic Minority Entrepreneurship at Aston University.

However, there is much more we still need to do. By regularly tracking and disclosing our progress against our commitments, we can identify areas where more action is needed to deliver long-term change.



Support for Ukraine

How NatWest Group was able to help

Following the invasion of Ukraine, colleagues from right across the bank did what they could to help.

Donations from NatWest Group colleagues and customers to the DEC Ukraine Humanitarian Appeal exceeded £10 million. This included £2.5 million matching from the bank, over £2.3 million in Reward donations (including Gift Aid) and £284,000 (including Gift Aid) donated by colleagues through our SponsorMe page.

Gogarburn House, in the grounds of our head office in Edinburgh, was made available to the Scottish Government and Edinburgh City Council to use as a welcome centre for people displaced from Ukraine, and greeted over 10,000 people during the year since opening in April 2022. Importantly, we set out information on our customer websites (in Ukrainian and Russian) to help refugees arriving in the UK from Ukraine who were in need of bank accounts.

We also pledged £100,000 to support 500 Ukrainian students to continue their studies at Polish universities and polytechnics.

Many of our colleagues felt the need to help directly. For Anna Majdak, based in our Warsaw office in Poland, this meant travelling to the border with Ukraine to directly offer her support.

Together with her husband and friends she set up a stall offering clothes and food to those crossing into Poland. They also transported people to the registration centre four kilometres from the crossing.

'The first trip was a natural, spontaneous reaction', Anna recalls. 'What we saw there showed how much our help was needed and was in fact essential.'

'We made a collection available so people could donate money for fuel and the purchase of necessary items. After a week at the border, our stall was fully equipped including a grill to provide hot food.'

Many of the refugees Anna helped were children. 'There were many that crossed the border alone,' she says. 'They were able to wait with us being warmed up with blankets in our cars, until family members were able to pick them up.'

Elsewhere, our colleagues opened their homes to families fleeing the conflict, helped Ukrainians secure access to medical facilities and provided language classes.

Suppliers

Our Supplier Charter

Our Supplier Charter (which replaced our Supplier Code of Conduct in 2020) sets out our aims and expectations for ethical business conduct, human rights, environmental sustainability, diversity and inclusion, the Living Wage and prompt payment. It details what we expect from our suppliers and outlines our commitments and the outcomes we aim to achieve by working together.

Working alongside the Group Chief People and Transformation Officer – the new Accountable Executive of our Supplier Charter – we have completed our annual review of the charter. The Supplier Charter continues to help us become a more sustainable business, delivering better outcomes for our customers, colleagues, shareholders and the communities in which we operate.

Central to its aims, we worked with EcoVadis, a leading provider of evidence-based assessments of sustainability performance. EcoVadis is helping us to understand and measure the performance of NatWest Group and our suppliers against core ESG pillars, enabling us to identify social, environmental, and ethical improvements.

In 2022, we made tangible progress, with over 531 suppliers scoring an average of 55.4% against the Global EcoVadis average of 44.8%. EcoVadis also conducted a sustainability assessment of NatWest Group, where we scored 62%, which is higher than the global EcoVadis average of 49% for the financial services sector.

Supporting our suppliers to net zero

We have an ambition to halve emissions from our operational value chain by 2030, against a 2019 baseline, with a minimum of a 90% reduction by 2050. We are focused on how we start to work with our suppliers and customers on understanding and reporting their own emissions and build the capability to measure and report these together. Our suppliers' data should help us to measure and monitor our own indirect climate impact which will enable us all to take the right steps towards net zero.

We are in the process of scoping out a multi-year programme to work with our supply chain to reduce carbon emissions. During Q4 2022, we undertook data analysis to understand the capability of our suppliers, where they are on the journey to net zero, and what help they might need to progress.

Prompt payment

We continue to pay our suppliers promptly for the services they provide to us. Our standard payment terms are 30 days, however, we have continued to maintain immediate payment on goods and services received, which supports our suppliers and the cost of living crisis. This goes significantly beyond our commitment undertaken as a signatory to the government's Prompt Payment Code, which requires payment to be made in 60 days.

Good Business Pays is a campaign to end late or slow payments to suppliers. For the second year running, NatWest Group was recognised for fast payment throughout the company, winning the Fast Payer Award for a consecutive year, placing us in the top seven companies in 2022.

Respecting human rights

At NatWest Group, we understand that businesses have an important role to play in promoting respect for human rights.

We seek to promote and respect human rights through the continued application of policies and practices covering our colleagues, customers and suppliers. Our approach to respecting human rights takes into account a range of international standards and principles including the UN Guiding Principles on Business and Human Rights (UNGPs). We reviewed and updated our Human Rights Position Statement in 2022.

Tackling modern slavery is integral to our approach to human rights. We publish an annual modern slavery statement outlining the actions and steps we take to identify and address the risks of modern slavery and human trafficking within our own operations and wider value chain.

In 2022, we engaged with various stakeholders, including charities, non-governmental organisations (NGOs) and campaign groups on human rights to help grow our knowledge and understanding of the issues. We continued our membership of the Thun Group and the UN Global Compact's UK Modern Slavery Working Group and we report annually against the Principles for Responsible Banking, the Equator Principles and UN Global Compact.

Further information on our approach to human rights, including our annual Modern Slavery and Human Trafficking Statement, can be found at natwestgroup.com.

Regulators

We operate in a highly regulated market which continues to evolve. As such, we understand the need to have an ongoing, constructive and open dialogue with all relevant regulatory bodies.

Ongoing dialogue

During 2022, this included bilateral responses to material consultations or other requests for comment and input from various government, regulatory and standard-setting bodies. Key consultation responses included the FCA's Consumer Duty proposals and the Payment Systems Regulator's proposals on Authorised Push Payment (APP) scams.

We formally engage with our regulators, at senior executive and Board level, as well as via individual non-executive directors, through continuous assessment and proactive engagement meetings. Most notably, during 2022, we kept our regulators fully informed of contingencies and impacts on our operations as a result of Russia's invasion of Ukraine and the cost of living crisis.

Any information contained on websites linked or report's referenced in this section is for information only and will not be deemed to be incorporated by reference herein.



Funding the drive to clean transport

Championing sustainability ambitions

NatWest Group has set out a clear ambition to be a leading bank in the UK helping to address the climate challenge. A key part of this is providing financing structures for businesses that are developing sustainable energy.

One such business is electric vehicle fleet and battery storage specialist Zenobē. Established in 2017, Zenobē currently works with the majority of major bus operators in the UK, as well as local authority-owned bus companies, to electrify their fleets and minimise the lifetime costs of their electric vehicles (EV) and charging infrastructure. The company also provides battery storage solutions to grid operators, accelerating the uptake of renewables.

By 2025, Zenobē aims to have a fleet of at least 3,000 EV buses, and 1GW of battery storage.



To support this ambition, the company has established a funding platform with an initial volume of £241 million, which will enable it to service and finance up to 430 new e-buses in the UK and Republic of Ireland.

Having worked with NatWest Group on an innovative financing facility in 2021, Zenobē turned to our team again to advise on a multi-source debt structure to help accelerate the expansion of the EV fleet sector.

Our One Bank team, comprising colleagues from Private Placements, Specialist Asset Financing, Risk Solutions, ESG Advisory and Climate & ESG Capital Markets, collectively delivered a bespoke funding package. This incorporated green loans and private placements that adhered to the Loan Market Association's Green Loan Principles attracting institutional investors and bank lenders.

We believe this financing will have a real-world impact for accelerating the UK's drive to electrify its public road transport system.

Combined with Zenobē's technical expertise, the funding enables the company to offer end-to-end services to the bus operators including the design, installation, financing and operation of electrical charging infrastructure and buses in the depot.

This is a clear example of our purpose in action: building relationships with businesses such as Zenobē, championing its potential and empowering it to deliver on its sustainability ambitions.

Our Climate strategy

Our Purpose

To champion potential, helping people, families and businesses to thrive

Our climate ambition (2)

To be a leading bank in the UK helping address the climate challenge

We have an ambition to be net zero by 2050 across our financed emissions, assets under management (AuM) and our operational value chain

Our 2030 climate ambitions

We have an ambition to at least halve the climate impact of our financing activity by 2030, against a 2019 baseline, and align with the 2015 Paris Agreement.

We plan to reduce the carbon intensity of our in-scope AuM by 50%, against a 2019 baseline, and to move 70% of in-scope AuM to a net-zero trajectory.(1)

We plan to reduce emissions for our operational value chain by 50%, against a 2019 baseline.

How we are helping to address the climate challenge

Supporting customer transition to net zero

We have a target to provide £100 billion climate and sustainable funding and financing between 1 July 2021 and the end of 2025. As part of this we aim to provide at least £10 billion in lending for EPC A and B rated residential properties between 1 January 2023 and the end of 2025.

We have an ambition to support our UK mortgage customers to increase their residential energy efficiency and incentivise purchasing of the most energy efficient homes, with an ambition that 50% of our mortgage portfolio has an EPC rating of C or above by 2030.

Helping to end the most harmful activities

We plan to phase out of 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.

Powerful partnerships and collaborations

We plan to collaborate cross industry and create products and services to enable customers to track their carbon impact.

Getting our own house in order

Each year, we plan to include targets for executive remuneration that reflect our latest climate ambitions.

We plan to continue the integration of the financial and non-financial risks arising from climate change into our enterprise-wide risk management framework (EWRMF).

We have a target to reduce our direct own operations emissions by 50% by 2025, against a 2019 baseline.

We plan to use only renewable electricity in our direct own global operations by 2025 (RE100) and improve our energy productivity 40% by 2025 against a 2015 baseline.

For details on our approach to Nature and Biodiversity refer to the 2022 NatWest Group plc Environmental, Social and Governance (ESG) Disclosures Report.

Notes:
(1) Refer to pages 38 to 39 of the Net Zero Asset Managers Initiative's Initial Target Disclosure Report (May 2022).

Climate transition plan and dependencies

Achievement of our Climate transition plan is dependent on timely, appropriate government policy, technology developments, as well as on our customers and society to respond. At the same time, as a purpose-led organisation, we aim to engage and support our customers' transition to a net-zero economy.

Refer to section 3 of the 2022 NatWest Group plc Climate-related Disclosures Report for further details.

For further detail on our climate ambitions and SBTi targets refer to sections 1.3 and 3.3 of the 2022 NatWest Group plc Climate-related Disclosures Report.

Any information contained on websites linked or reports referenced in this section is for information only and will not be deemed to be incorporated by reference herein.

(2) The guidance, targets, expectations, and trends discussed in this section represent NatWest Group plc management's current expectations and are subject to change, including as a result of the factors described in the Risk Factors section of the 2022 NatWest Group plc Annual Report on Form 20-F. These statements constitute forward-looking statements. (Refer to Forward-looking statements on pages 170 and 171 of this document for cautionary statement on Climate and ESG disclosures .

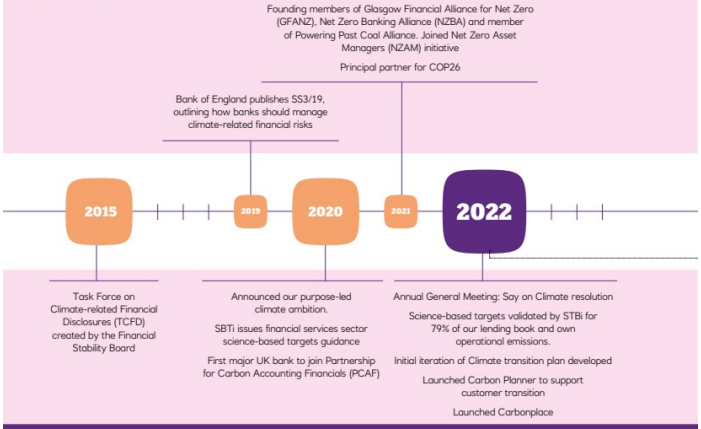
The table below outlines progress during 2022 – which supports our ambition to be a leading bank in the UK helping to address the climate challenge. Aligned with our ambition to set sector specific targets, during 2022 we published 2030 targets validated by the SBTi as science based. These targets included our own operational footprint as well as 79% of our 2019 lending book. For further details on the initial iteration of our Climate transition plan, our 2030 ambitions and our ambition to be net zero by 2050 across our financed emissions, assets under management and operational value chain refer to the 2022 NatWest Group plc Climate-related Disclosures report.

Climate ambition	Progress update
Supporting customer transition to net zero	
We have a target to provide £100 billion climate and sustainable funding and financing between 1 July 2021 and the end of 2025. As part of this we aim to provide at least £10 billion in lending for EPC A and B rated residential properties between 1 January 2023 and the end of 2025.	• In the year ended 31 December 2022, we provided £24.5 billion of climate and sustainable funding and financing. • We have now provided £32.6 billion of climate and sustainable funding and financing towards our £100 billion target between 1 July 2021 and the end of 2025. This includes £5.4 billion for EPC A and B rated residential properties.
We have an ambition to support our UK mortgage customers to increase their residential energy efficiency and incentivise purchasing of the most energy efficient homes, with an ambition that 50% of our UK mortgage portfolio has an EPC rating of C or above by 2030.	• As at 31 December 2022, 41.5% (31 December 2021 38.3%) of our UK residential mortgages portfolio that had EPC data available[1] was rated as EPC C or higher.
Helping to end the most harmful activities	
We plan to phase out of 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.	• Exposure to coal customers[2], as defined in the Credible Transition Plan (CTP) assessment completed in 2021, was £0.3 billion as at 31 December 2022 (£0.6 billion as at 31 December 2021). For further details refer to page 41 and section 5.1 of the 2022 NatWest Group plc Climate-related Disclosures Report.
Powerful partnerships and collaborations	
We plan to collaborate across industry and create products and services to enable customers to track their carbon impact.	• Engaged with policymakers and officials on a range of climate-related topics, recognising the importance of collaboration and significant role that policy has to play in providing the long-term frameworks, incentives and certainty required for progress on net zero. As part of the Sustainable Homes and Buildings Coalition, we engaged on the need to improve the energy efficiency of the UK's housing stock, focusing on how this can be accelerated. • Engaged with peers, policy makers and stakeholders through GFANZ, Transition Plan Taskforce, NZBA, Financial Markets Stability Board and NZAM initiative to facilitate a net-zero transition.
Getting our own house in order	
Each year, we plan to include targets for executive remuneration that reflect our latest climate ambitions.	• Climate considerations continue to be included in senior executive remuneration as part of the bonus pool assessment for our wider workforce, recognising its central role in our strategy.
We plan to continue the integration of the financial and non-financial risks arising from climate change into our enterprise-wide risk management framework (EWRMF).	• Increasing use of quantification in risk assessments with enhanced analytics capabilities under development for integration in the EWRMF. • Enhancement of core strategic climate risk modelling capabilities and initial integration into risk management and customer journeys.
We have a target to reduce our direct own operations emissions by 50% by 2025, against a 2019 baseline.	• We reduced our direct[3] own operations emissions by 46% against a 2019 baseline.
We plan to use only renewable electricity in our direct own global operations by 2025 (RE100) and improve our energy productivity 40% by 2025 against a 2015 baseline (EP100).	• We increased our consumption of renewable electricity to 98% across our global operations. For operations in the UK and Republic of Ireland, electricity consumption used 100% renewable electricity. • Energy productivity has increased by 41% since 2015, and electricity consumption decreased by 8% since 2021.
We plan to install electric vehicle charging infrastructure in 15% of large office space across our UK portfolio by 2025 and upgrade our fleet of 100 vehicles to electric by 2025 (EV100).	• As at 31 December 2022, we have installed electric vehicle charging points in 13% of our large office car park spaces across our UK portfolio. In addition, as part of our ambition to electrify our fleet, we reviewed and reduced our fleet size from 300 to approximately 100 vehicles, of which 3% are EVs.

(1) As at 31 December 2022, £138.8 billion, 68%, of the total residential mortgages portfolio had EPC data available.
(2) As defined in the Credible Transition Plan (CTP) assessment. Refer to pages 30 – 31 of the NatWest Group plc 2021 Climate-related Disclosures Report for further details on the assessment of CTPs for oil and gas majors and in-scope coal customers.
(3) Direct own operations is defined as Scope 1, Scope 2 and Scope 3 (paper, water, waste, business travel, commuting and work from home) emissions. It excludes upstream and downstream emissions from our value chain.

Our transition to net zero (2)

NatWest Group has been a signatory to the United Nations Environment Programme Finance Initiative (UNEP FI) since 1997 and the Equator Principles since 2003. We have come a long way since activists protested against our financing of oil, gas and coal in 2010. In 2011, we launched our Environmental, Social & Ethical (ESE) Risk Framework, which required enhanced due diligence for certain lending and loan underwriting customer relationships, transactions, activities and projects. We recognise that through our financing activity NatWest Group may contribute to climate change. As the initial iteration of our Climate transition plan illustrates, we are committed to playing our part in addressing the climate challenge, but we cannot transform the real economy on our own. Ultimately, success will be determined by society's willingness to adapt, supported by consistent, long-term government policy and continuing technical innovation.



Key opportunities to support the transition

There is a dependency on timely, appropriate Government policy, technology developments, as well as on our customers and society to respond. At the same time, as a purpose-led organisation, we aim to engage and support our customers' transition to a net-zero economy. Further detail on how we are exploring potential opportunities and dependencies for transition is available in section 3 of the **2022 NatWest Group plc Climate-related Disclosures Report.**

Financed emissions

- Provision of £100 billion climate and sustainable funding and finance between 1 July 2021 and the end of 2025. As part of this we aim to provide at least £10 billion in lending for EPC A and B rated residential properties between 1 January 2023 and the end of 2025.
- Development of carbon tracking tools.
- Enhanced customer and colleague education tools.
- Building powerful partnerships to support customer transition.

Refer to the 2022 NatWest Group plc Climate-related Disclosures Report, section 3.4, 3.5, 5.3, 5.5 for details

(1) Our climate transition planning uses different time frames than those used in financial reporting. Accordingly, the references to "short", "medium" and "long-term" in climate reporting are not indicative of the meaning of similar terms used in this report or in certain of our other disclosures, including our annual, periodic and interim reports.

(2) The guidance, targets, expectations, and trends discussed in this section represent NatWest Group plc management's current expectations and are subject to change, including as a result of the factors described in the Risk Factors section of the 2022 NatWest Group plc Annual Report on Form 20-F. These statements constitute forward-looking statements. Refer to Forward-looking statements in this document.

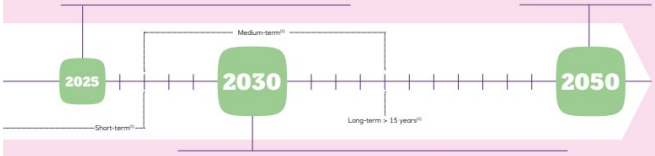
Any information contained on websites linked or reports referenced in this section is for information only and will not be deemed to be incorporated by reference herein.

'Net zero is the growth opportunity of the 21st century'
Mission Zero, Independent Review of Net Zero Report by Rt Hon Chris Skidmore MP, published in January 2023

Target to provide £100 billion climate and sustainable funding and financing between 1 July 2021 and the end of 2025. As part of this we aim to provide at least £10 billion in lending for EPC A and B rated residential properties between 1 January 2023 and the end of 2025.

Target to reduce emissions from direct own operations by 50% by 2025, against a 2019 baseline

Ambition to achieve net zero across our financed emissions, AuM and operational value chain



Ambition to at least halve the climate impact of our financing activity, against a 2019 baseline, and align with the 2015 Paris Agreement

Ambition for 50% of our UK mortgage book has an EPC rating of C or above by 2030

Plan to reduce emissions for our operational value chain by 50%, against a 2019 baseline

Plan to reduce the carbon intensity of our in-scope AuM by 50% against a 2019 baseline and align 70% of in-scope AuM to a net-zero trajectory

Assets Management

- Move 50% of our assets under management to a net-zero trajectory by 2025.
- Voting and engagement in line with net zero, including support for climate-related shareholder resolutions.
- Continue to build net zero into our investment process and our engagement with funds.

Refer to the 2022 NatWest Group plc Climate-related Disclosures Report section 3.2, 3.4 for details

Own operational footprint

- Install electric vehicle charging infrastructure in 15% of large office space across our UK portfolio by 2025
- 100% renewable electricity for global operations by 2025.
- Continue to increase energy efficiency in our buildings through updated technology, design and data analysis.
- Review the buildings we occupy and move to more sustainable buildings where appropriate.

Refer to the 2022 NatWest Group plc Climate-related Disclosures Report, section 3.7 and 5.4 for details

Any information contained on websites linked or reports referenced in this section is for information only and will not be deemed to be incorporated by reference herein.

TCFD: Climate-related disclosures overview (1)



NatWest Group confirms that it has:

- made climate-related financial disclosures for the year ended December 31, 2022 that it believes are consistent with the Task Force on Climate-related Financial Disclosures ("TCFD") Recommendations and Recommended Disclosures (as defined in the FCA's Listing Rules, as amended by the Disclosure of Climate-Related Financial Information (No 2) Instrument 2021) which include (i) "Recommendations of the Task Force on Climate-related Financial Disclosures" (June 2017) (focusing in particular on the four recommendations and the eleven recommended disclosures set out in Figure 4 of Section C of the TCFD Final Report); (ii) "Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures" (October 2021 version); (iii) "Guidance on Metrics, Targets and Transition Plans" (October 2021 version); (iv) Technical Supplement - "The Use of Scenario Analysis in Disclosure of Climate-related Risks and Opportunities" (June 2017); and (v) "Guidance on Risk Management Integration and Disclosure" (October 2020) and summarised in the tables on pages 58-61;
- set out these disclosures in this report and in its "2022 NatWest Group Climate-related Disclosures Report", both published on 17 February 2023; and
- adopted this approach given the detailed and technical content of the climate-related financial disclosures as it believes these presentations best present its climate-related financial disclosures in a decision-useful manner to the users of these reports.

Governance

NatWest Group's governance around climate-related risks and opportunities

The Board's oversight of climate-related risks and opportunities

2022 progress

- 92.58% of votes cast were in favour of our Say on Climate resolution, indicating strong shareholder support for our climate strategy.
- The NatWest Group Board and Board committees oversaw the development of the initial iteration of our Climate transition plan and approved the plan prior to publication.

Future priorities

- Board and Executive Committee (ExCo) continuing oversight of delivery, and ongoing development, of the initial iteration of NatWest Group's Climate transition plan, development of customer level decision-making tools as well as regular monitoring of climate ambitions.

NatWest Group plc 2022 Climate-related Disclosures Report sections 2.1, 2.2

Management's role in assessing and managing climate-related risks and opportunities

2022 progress

- Business areas have enhanced local governance forums to support an integrated management response to delivering our climate ambitions, development of the initial iteration of our Climate transition plan, the identification of climate-related opportunities and the effective management of climate-related risks. In addition, cross-bank climate-related forums continue to provide strategic insight and expertise, supporting collaboration and ensuring a One Bank approach to climate governance.

Future priorities

- Continue to build knowledge and further embed operating models and business processes across the organisation to support the oversight and management of climate-related risks and opportunities within NatWest Group's overall business strategy and risk appetite.

NatWest Group plc 2022 Climate-related Disclosures Report sections 2.1, 2.3, 2.4

(1) Refer to Forward-looking statements on pages 170 and 171 of this document for cautionary statement on Climate and ESG disclosures.

Any information contained on websites linked or reports referenced in this section is for information only and will not be deemed to be incorporated by reference herein.



Strategy

The actual and potential impacts of climate-related risks and opportunities on NatWest Group's businesses, strategy and financial planning

Climate-related risks and opportunities identified over the short, medium and long term

2022 progress

- NatWest Group's climate ambition, announced in February 2020, recognises various short, medium and long-term[1] climate-related risks and opportunities to embed climate in our business and culture, as well as support our customers in their transition to net zero.

Future priorities

- Continue to integrate climate-related decision-making in business activities.

NatWest Group plc 2022 Climate-related Disclosures Report sections 3.1, 3.2, 4.2, 5.1

The impact of climate-related risks and opportunities on our businesses, strategy and financial planning

2022 progress

- We developed the initial iteration of our Climate transition plan. This plan focuses on the delivery of our 2030 decarbonisation ambitions and will inform further work on our journey to net zero by 2050 across our financed emissions, assets under management and our operational value chain.
- We have enhanced the financial planning process to incorporate actions included within the initial iteration of our Climate transition plan and also used the financial forecasts to consider impacts on our Climate transition plan.
- We continued to harness climate-related opportunities including providing climate and sustainable funding and financing and a range of green loan products and services.

Future priorities

- We will continue to work on aligning the financial planning and transition planning processes.
- We will further enhance carbon planning, measurement and tracking capability to support the ongoing development of our Climate transition plan.

NatWest Group plc 2022 Climate-related Disclosures Report sections 1.2, 1.3, 1.4, 2,3, 3.1, 3.2, 3.3, 3.4, 3.5, 3.6, 3.7, 4.2. 4.2a, 4.3, 5.4, 5.5, 5.7

The resilience of our strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

2022 progress

- We ran internal scenario analysis and completed round two of the Bank of England's Climate Biennial Exploratory Scenario (CBES) exercise, as well as developing internal scenario analysis tools and core strategic climate risk modelling capabilities to embed within our existing risk management processes.
- This work allowed us to assess our exposure to climate-related risk across our lending book and provided insights which we continue to incorporate within our climate strategy and to inform work on the initial iteration of our Climate transition plan.
- One of the key lessons from this work is that while climate-related risks could potentially amplify other risk drivers, for example resulting in effects such as the erosion of competitiveness, profitability, or reputational damage, overall NatWest Group is resilient to these risks, within the context of the scenarios tested, and we will continue to monitor and manage this through our enterprise-wide risk management framework (EWRMF).
- A priority area of focus for NatWest Group in 2022 has been the continued enhancement of how we incorporate climate risk into our capital adequacy assessment process (ICAAP) and strategic planning process. This ensures that we have sufficient capital for the most material source of climate risk over the capital planning horizon.

Future priorities

- Continue to enhance scenario modelling and analytic capabilities.
- Address significant challenges related to the availability of granular, reliable and verifiable customer data.
- Respond to developing regulatory requirements on the approach to climate-related risk within the regulatory capital regime.

NatWest Group plc 2022 Climate-related Disclosures Report sections 4.2a, 5.5

(1) Our climate transition planning uses different time frames than those used in financial reporting. Accordingly, the references to "short", "medium" and "long-term" in climate reporting are not indicative of the meaning of similar terms used in in certain of our other disclosures, including our annual, periodic and interim reports.

Any information contained on websites linked or reports referenced in this section is for information only and will not be deemed to be incorporated by reference herein.



Risk Management

How NatWest Group identifies, assesses and manages climate-related risks

Our processes for identifying and assessing climate-related risks

2022 progress

- We reviewed and refreshed our assessment of the relative significance of climate risk on other principal risks. This assessment used the judgement of risk subject matter experts combined with scenario analysis, increased granularity of climate data, as well as improved understanding of evolving regulatory guidance to understand the current and potential impact of physical and transition climate-related risk as a causal factor to other principal risks.
- We identify and assess climate-related risks through three principles:
  - Undertaking scenario analysis to understand the potential impacts of climate-related risks.
  - Identifying segments of our portfolio and operations with heightened climate-related risk exposure. In 2022 we established an increasingly quantitative methodology for the identification and assessment of heightened climate-related risk sectors and subsectors.
  - Assessing individual customer and supplier climate-related risk exposure. In 2022, we completed the development and launch of qualitative climate risk scorecards and conducted sustainability assessments of our suppliers.
- NatWest Group regularly considers existing and emerging regulatory requirements related to climate change through external horizon scanning and monitoring of emerging regulatory requirements.

Future priorities

- Scaled implementation of quantitative scorecards within credit assessment processes.

NatWest Group plc 2022 Climate-related Disclosures Report sections 4.2, 4.2a

Our processes for managing climate-related risks

2022 progress

- We launched preliminary shadow operational limits supported by EPC for transition risk and physical flood risk data, to monitor the performance of the current Retail Banking mortgage portfolio and new mortgage business.
- Credit assessment processes have been improved to support customer interactions, including mandatory climate conversations with in-scope[1] customers. These conversations reflect the specificity of sector and asset class, and the size and sophistication of these customers.

Future priorities

- Evolution and application of appropriate credit limits informed by climate-related risk and transition plans.
- Continued evolution and monitoring of Environmental, Social and Ethical Risk Acceptance Criteria in accordance with framework.
- Review of internal control standards in response to the outcomes of the non-financial risk scenario.

NatWest Group plc 2022 Climate-related Disclosures Report sections 4.3

How our processes for identifying, assessing, and managing climate-related risks are integrated into overall risk management

2022 progress

- We continued to mature our integration of climate risk within NatWest Group's risk management. This involved increasing use of quantification in risk assessments with enhanced analytics capabilities under development for integration in the enterprise-wide risk management framework (EWRMF).
- Enhanced reporting to relevant senior governance forums covering areas of risk concern across all material sectors and portfolios.
- Regular monitoring of an initial suite of quantitative key risk indicators for climate risk.

Future priorities

- Work will continue to further integrate climate-related risks across business processes to work towards full integration within our risk management framework and business-as-usual decision-making.

NatWest Group plc 2022 Climate-related Disclosures Report sections 4.1

(1) Guidance on in-scope customers is tailored to each business area and detailed in the Climate Transaction Acceptance Standards Handbook. For example, for Business Banking Relationship Managers the criteria is – new or increased lending applications of £50,000 and above.

Any information contained on websites linked or reports referenced in this section is for information only and will not be deemed to be incorporated by reference herein.



Metrics and Targets

The metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material

The metrics used to assess climate-related risks and opportunities in line with our strategy and risk management process

2022 progress

Metrics used to assess climate-related risks:
- Exposures to heightened climate-related risk sectors;
- Energy efficiency and flood risk assessment for UK residential mortgage portfolio;
- NatWest Group's own operational footprint;
- Estimates of financed emissions based on absolute emissions and emissions intensities, including progress against sectoral decarbonisation pathways;
- Estimates of facilitated emissions from corporate bond underwriting.

Metrics used to assess climate-related opportunities:
- Climate and sustainable funding and financing;
- NatWest Group Own Green Bond issuance.

Refer to the Directors' Remuneration Report in this document for further details on integration of climate considerations into remuneration.

Future priorities

- Continue to develop metrics and measurement capabilities to monitor and manage climate-related risks and opportunities.
- Continue to develop measurement, monitoring and reporting capabilities for Asset management.
- Continue to monitor evolving carbon measurement standards and enhance capabilities including continuing engagement with PCAF on finalisation of the financed emissions standard.

NatWest Group plc 2022 Climate-related Disclosures Report sections 3.2, 5.1, 5.2, 5.3, 5.4, 5.5, 5.6, 5.7

Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks

2022 progress

- We continued to develop and enhance capabilities to measure emissions in relation to our own operations as well as financed emissions.
- We reduced emissions from our direct own operations by 46%, against a 2019 baseline, and increased our renewable electricity consumption to 98%.

Future priorities

- Continue our work to enhance the availability of data and data quality to support future calculations of financed emissions including absolute emissions and emissions intensities.

NatWest Group plc 2022 Climate-related Disclosures Report sections 5.4, 5.5, 5.7

The targets used to manage climate-related risks and opportunities and performance against targets

2022 progress

- Our stated climate ambition is to be a leading bank in the UK helping to address the climate challenge. We have an ambition to achieve net zero by 2050 across our financed emissions, assets under management and our operational value chain. Progress is monitored via climate-related targets and ambitions across the following thematic opportunities: supporting customer transition to net zero, helping to end the most harmful activities, powerful partnerships and collaborations and getting our own house in order.
- NatWest Group was the first UK bank, and one of the largest banks globally to date, to have science-based targets validated by the SBTi. Our portfolio targets cover 79% of lending activities by outstanding exposure as at 31 December 2019.

Future priorities

- Continue to monitor our performance against our climate-related targets and ambitions and revise as appropriate.

NatWest Group plc 2022 Climate-related Disclosures Report sections 1.2, 1.3, 1.4, 3.1. 3.3, 3.4, 5.4, 5.5, 5.7

Any information contained on websites linked or reports referenced in this section is for information only and will not be deemed to be incorporated by reference herein.

Own operational footprint

During 2022[1], we reduced our direct own operations[2] emissions by 46%, against our 2019 baseline, and increased our renewable electricity consumption to 98% globally.

In 2021, we disclosed an initial view of our upstream[3] emissions, and for 2022 we are disclosing both our upstream and our downstream[4] emissions to report on our full operational value chain[5] emissions for the first time, covering Scopes 1, 2 and 3 (all relevant categories 1-14, with category 15 financed emissions covered in section 5.5 of the 2022 NatWest Group plc Climate-related Disclosures Report).

Our 2022 total market-based operational emissions of 73,927 tCO_2e covers Scopes 1, 2 and our direct own operations upstream Scope 3. This includes emission reductions from the use of green electricity covering 98% of our consumption through green tariffs and renewable electricity certificates, but in accordance with the Greenhouse Gas Protocol it does not include emissions reduction from the use of carbon credits.

We purchased and retired 120,000 carbon removal credits, assured under the Verified Carbon Standard (VCS), and Triple Gold certified to the Climate, Community & Biodiversity Alliance Standards (CCBA) to invest beyond our value chain, and provide benefits to climate, especially those that generate additional co-benefits for people and nature[6]. By investing beyond our value chain, these carbon credits mitigate direct operational emissions of 73,927 tCO_2e in 2022, while we continue to decarbonise in line with SBTi. Further detail of our decarbonisation plans can be found in the initial iteration of our Climate transition plan in section 3.7 of the 2022 NatWest Group plc Climate-related Disclosures Report and on our website at natwestgroup.com.

Our operational emission reductions are linked to remuneration. For further information, refer to the Directors' Remuneration Report on page 124.

Supply chain

We have used a spend-based approach[7] to calculate our supplier emissions. In late 2022, we established a (multi-year) Supplier Decarbonisation Programme to support delivery of the 2030 and 2050 carbon reduction ambitions related to our operational value chain. This will involve collaborating with our suppliers to understand their capability, data, where they are on the journey to net zero, and what help they might need to progress.

We are also working with a third party to evaluate our supply chain using evidence-based assessments of sustainability performance enabling us to understand our wider impact and to identify where improvements can be made, and risks mitigated.

As part of increasing the sustainability of our cash and coin operations, we have engaged our suppliers to reduce the amount of single-use plastic coming in and going out of our cash centres and to improve the accuracy of data for our waste streams.

For our properties, the suppliers we work with must have environment and quality management accreditations and products used in fitouts should meet all Royal Institution of Chartered Surveyors SKA criteria as standard.

Energy

Following the return to the office after the easing of COVID-19 restrictions, we focused on the practice of using energy more efficiently and effectively in our operations and reviewed our processes to reduce consumption.

- **Building energy optimisation:** our building plant equipment is continuously reviewed to maximise energy efficiency. Data analytics are used to proactively identify anomalous consumption, ensuring our buildings run more efficiently.
- **Energy audits:** there have been audits carried out in most of our buildings this year to identify where we can improve energy efficiency and reduce consumption and this work will continue in 2023.
- **Data centres:** we have consolidated our data centres to allow for more efficient IT architecture using fewer resources. The work carried out ensures they run more efficiently, with lighting upgrades and optimisation of the data hall environmental controls already seeing a significant reduction in water and power usage.
- **Renewable electricity:** in 2021, we committed to a Corporate Power Purchase Agreement (cPPA), bringing additional renewable generation capacity online to facilitate the decarbonisation of the UK grid. We are continuing to work towards this with additional cPPAs, and once constructed they are expected to generate 59% of NatWest Group's electricity demand in the UK by 2024.
- **Leased buildings:** for our leased buildings in India, we are working with the landlords to review the scope for identifying energy-saving opportunities, assessing end of life for equipment, and creating an energy efficient replacement plan where possible.
- **Colleague engagement:** we launched a bank-wide energy campaign in the second half of 2022 to help educate and engage our colleagues by sharing tips on how to reduce consumption at home and in the office through a series of activities, raising the importance of energy saving actions. This is an ongoing campaign which we will continue to work on in 2023.

(1) Our own operational footprint reporting year runs from 1 October 2021 to 30 September 2022.
(2) NatWest Group defines direct own operations as our Scope 1, Scope 2 and Scope 3 (paper, water, waste, business travel, commuting and work from home) emissions. It therefore excludes upstream and downstream emissions from our value chain.
(3) Upstream emissions relate to the Scope 3 Categories 1–8 under the Greenhouse Gas Protocol.
(4) Downstream emissions relates to the Scope 3 Categories 9–15 under the Greenhouse Gas Protocol.
(5) Our operational value chain is Scope 1, Scope 2, Scope 3 (Categories 1–15, with categories 8, 10, 14 excluded and Category 15 reported in section 5.4 of the 2022 NatWest Group plc Climate-related Disclosures Report. Refer to the 2021 NatWest Group plc Climate-related Disclosure Report where these categories are described in more detail.
(6) The SBTi recommends that companies invest to mitigate emissions beyond their value chain while they transition towards a state of net zero emissions. In accordance with the Greenhouse Gas Protocol, emission reductions cannot be achieved through the use of carbon credits.
(7) Category 1 and 2 emissions have been calculated using spend data and publicly sourced sector-specific emission factors.

Streamlined energy and carbon reporting (SECR) (5)

Greenhouse gas (GHG) emissions	2022 UK and offshore[1] area	2022 Global total (excluding UK and offshore)	2021 UK and offshore[1] area	2021 Global total (excluding UK and offshore)
Emissions from the combustion of fuel and operation of any facility (Scope 1[2]) Direct) CO_2e (tonnes)	**14,877**	**1,363**	17,560	1,650
Emissions from the purchase of electricity, heat, steam or cooling by the company for its own use (Scope 2[3]) Indirect) location-based CO_2e emissions (tonnes)	**47,546**	**15,430**	56,461	18,159
Total gross Scope 1 & Scope 2 (location-based) emissions CO_2e (tonnes)	**62,423**	**16,793**	74,021	19,809
Energy consumption used to calculate above emissions (kWh)	**298,262,392**	**35,070,567**	329,317,585	40,484,981
Intensity ratio: Location-based CO_2e emissions per FTE (Scope 1 & 2) (tonnes/FTE)	**1.6**	**1.0**	1.8	1.1
Scope 3[4] CO_2e emissions from direct operations[5] (tonnes)	**39,559**	**15,743**	36,197	8,967
Total gross Scope 1, 2 & 3 direct own operations (location-based) emissions CO_2e (tonnes)	**101,982**	**32,536**	110,218	28,776
Intensity ratio: Location-based CO_2e emissions per FTE (Scope 1, 2 & direct operations Scope 3) (tonnes/FTE)	**2.5**	**2.0**	2.7	1.7
Scope 2[6] (Indirect) market-based CO_2e emissions (tonnes)	**13**	**2,372**	8	2,186

Emissions methodology and basis of preparation

Boundary: this statement has been prepared in accordance with our regulatory obligation to report greenhouse gas (GHG) emissions pursuant to the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 which implement the government's policy on Streamlined Energy and Carbon Reporting. Our reporting year runs from 1 October 2021 to 30 September 2022. The emissions reporting boundary is defined as all entities and facilities either owned or under our operational control.

Calculation: emissions have been calculated using the Greenhouse Gas Protocol Corporate Standard and associated guidance and include all greenhouse gases, reported in tonnes of carbon dioxide equivalent (CO_2e) and global warming potential values. When converting data to carbon emissions, we use Emission Factors from UK Government Emissions Conversion Factors for Company Reporting (Department for Business, Energy & Industrial Strategy, 2021, CO_2 emissions from fuel combustion (International Energy Agency, 2021) or relevant local authorities as required. NatWest Group uses a third-party software system, to capture and record our environmental impact and ensure that control framework and assurance requirements are met. All data is aggregated at a regional level to reflect the total regional consumption. The regional consumption results are then collated to reflect the total NatWest Group footprint. CO_2e values are attributed to these sources via an automatic conversion module in the third-party system. For more information, please see the own operational footprint page at natwestgroup.com.

(1) Offshore area as defined in The Companies (Directors Report) and Limited Liability Partnerships (Energy and Carbon) Regulations 2018. This includes Jersey and Guernsey but not our overseas sites in America, EMEA and Asia-Pacific. These are included in the global total (excluding UK and offshore).
(2) Scope 1 emissions from natural gas, liquid fossil fuels, fluorinated gas losses and owned/leased vehicles.
(3) Scope 2 emissions from electricity, district heating and cooling used in NatWest Group premises.
(4) Scope 3 emissions from paper and water, category 5: waste (UK and RoI only), category 6: business travel including air, rail, hired vehicles and our grey fleet, category 7: employee commuting and working from home.
(5) The historic values reported in the table above are updated from values we reported in 2021. This is due to updated bills, data provision and extrapolations.
(6) NatWest Group defines direct own operations as our Scope 1, Scope 2 and Scope 3 (paper, water, waste, business travel, commuting and work from home) emissions. It therefore excludes upstream and downstream emissions from our value chain.
(7) Market-based Scope 2 emissions. We have procured 100% of UK and RoI and 98% globally from renewable sources using green tariffs and renewable electricity certificates. The 13 tCO2e arises from district cooling and district heating, which is used at only a few sites.

Risk overview

Effective risk management ensures that NatWest Group delivers its long-term strategy and fulfils its purpose.

Our approach to risk management

The enterprise-wide risk management framework (EWRMF) sets out our approach to managing risk across NatWest Group and provides a common risk language and framework to facilitate effective risk management. The framework applies to all subsidiary legal entities, business segments and functions and links each component of the framework to help deliver NatWest Group's strategy in a safe and sustainable way.

Risk culture

NatWest Group's multi-year programme to enhance risk management capability at every level of the organisation continued in 2022, with an ongoing emphasis on risk culture. We refreshed our approach to risk culture under a new banner of intelligent risk-taking, intensifying focus on robust risk management behaviours and practices.

Evolving our risk culture, in line with our purpose-led strategy and our values across all three lines of defence, enables us to support better customer outcomes, develop a stronger and more sustainable business, and deliver an improved cost base. During 2022, five key outcomes to deliver on the intelligent risk-taking approach were also identified. These outcomes focused on behaviours, leadership, risk practices, decision-making, and roles and responsibilities.

Risk governance

NatWest Group's governance structure facilitates sound risk management decision-making, in line with standards of good corporate governance. The Board reviews and approves the EWRMF and monitors performance against risk appetite. In addition, the key risk committees have the following roles and responsibilities:

- The Board Risk Committee (BRC) is responsible for providing oversight of current and potential future risk exposures, risk profile, risk appetite and risk culture. The BRC also oversees the effectiveness of the EWRMF across NatWest Group, and reviews the performance of NatWest Group relative to risk appetite and risk policy.
- The Group Executive Risk Committee (ERC) reviews, challenges and debates all material risk and control matters across NatWest Group. It supports the CEO and other accountable individuals in discharging their risk management accountabilities. It considers NatWest Group's risk profile relative to current strategy and oversees implementation of the risk management framework.

Three lines of defence

In line with industry best practice and sound risk governance principles, NatWest Group adopts a three lines of defence model of risk governance. Everyone has a responsibility for the intelligent management of risk in day-to-day activities. This includes actively demonstrating risk practices and behaviours that are consistent with NatWest Group's desired risk culture.

As the second line of defence, the Risk function has a clear mandate to undertake proactive risk oversight and monitoring of all risk management activities. The Risk function designs and maintains the EWRMF. The Chief Risk Officer leads the Risk function and plays an integral role in advising the Board on NatWest Group's risk profile. This includes continuous monitoring activities to confirm that NatWest Group engages in sustainable risk-taking activities in pursuit of strategic objectives.

Risk appetite

The risk appetite framework is a component of the EWRMF and establishes the extent of permissible risk-taking to support business outcomes and delivery of the strategy. The EWRMF sets out the requirements on how risk appetite is implemented through risk policies and standards and translated into operational procedures. This consistent approach is followed for all principal risks, frameworks, tools and techniques to support efficient and effective consolidation and interpretation.

Risk directory and principal risks

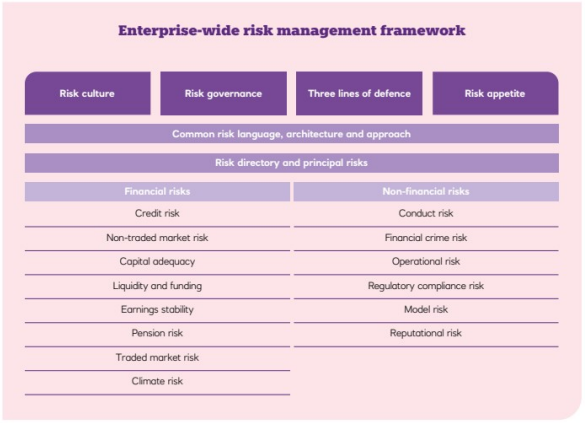
To ensure common language and a consistent approach across NatWest Group, the risk directory defines and documents all principal risks that NatWest Group may face, categorised into financial and non-financial risks. The risk directory is an important component of the EWRMF, underpinning the linkage between strategy, risk appetite, risk reporting and governance.

Anti-bribery and corruption (ABC)

NatWest Group is committed to ensuring it acts responsibly and ethically, both when pursuing its own business opportunities and when awarding business. Consequently, it has embedded appropriate policies, procedures and controls so that its employees, and any other parties it does business with, understand these obligations and abide by them whenever they act for NatWest Group. ABC training is mandatory for all staff on an annual basis, with targeted training appropriate for certain roles. NatWest Group considers ABC risk in its business processes including, but not limited to, corporate donations, charitable sponsorships, political activities and commercial sponsorships. Where appropriate, ABC contract clauses are required in written agreements.

The factors discussed in this section and elsewhere in this document should not be regarded as a complete and comprehensive statement of all risks and uncertainties facing NatWest Group. Refer to the Risk Factors on pages 127 to 148 of the Annual Report on Form 20-F for further details.

Enterprise-wide risk management framework – core components



Top and emerging threats

Top and emerging threats are a component of the EWRMF and identify and manage threats that could have a significant negative impact on our ability to operate or deliver NatWest Group's strategy. They are specific scenarios that usually combine elements of several principal risks and require a coordinated management response. Top and emerging threats are subject to regular review by senior governance forums including the Board, ERC and BRC.

Horizon-scanning is an important activity, enabling NatWest Group to identify, assess and mitigate top and emerging threats including via strategic planning. A range of methods are used including internal working groups, scenario analysis and consulting with external experts to ensure an external perspective is incorporated. In 2022, there was increased focus on assessing and understanding how different individual risks and threats are correlated with each other, including via scenario analysis. This approach helps to integrate strategic risk considerations into business processes and planning and strategy.

Additional areas of risk focus

Operational risk: A payment review was initiated in late 2022, to assess control enhancements in response to manual payment risk.

Model risk: Models are increasingly used as a key basis for informing important business decisions. It is therefore necessary to understand the potential for adverse consequences from model errors and the potential for inappropriate use of modelled outputs. Ensuring models used by NatWest Group are designed effectively – and that model assumptions and techniques remain fit for purpose – continued to be a key risk management focus in 2022. This included a programme of ongoing work to upgrade a number of models to improve performance and compliance with new regulatory requirements.

Compliance and conduct: Further progress was made on the compliance agenda during 2022. The first line of defence ring-fencing hub, established to provide an aggregated view of ring-fencing compliance and risk management, continued to work across business areas, functions and legal entities to support completion of the attestation of compliance with the PRA rules, as at the end of December 2022. From a conduct risk perspective, the focus on consumer protection continued during 2022, given cost of living challenges and their impact on customers in vulnerable situations, as well as the FCA's increased expectations under Consumer Duty. The establishment of the Consumer Duty One Bank programme will ensure continued focus on delivering the required 'paradigm shift' in the levels of consumer protection.

Externally-focused top and emerging threats		Trend
Economic and political risks	NatWest Group was affected by uncertain and volatile economic conditions in 2022 which created a challenging operating environment. The outlook for the UK and global economy remains uncertain including due to falling economic activity, high inflation, rising interest rates, elevated energy prices, and the Russian invasion of Ukraine. These conditions could deteriorate, depending on a number of factors including market volatility, volatility in commodity prices, escalating geopolitical tensions or concerns regarding sovereign debt or sovereign credit ratings. Economic conditions could also be affected by changing demographics in the markets that NatWest Group serves including increasing social inequalities or the threat of new and widespread public health crises (including any future epidemics or pandemics). The UK experienced significant political uncertainty in 2022, which may persist into the future. This could lead to a loss of confidence in the UK by investors, which could in turn negatively impact NatWest Group. NatWest Group also faces political uncertainty in Scotland, as a result of a possible second Scottish independence referendum. A range of complementary approaches is used to mitigate these risks, such as targeted customer reviews, including for customer segments most vulnerable to inflationary impacts, scenario analysis, stress tests and review of risk appetite.	
Climate change	Climate-related risks represent a source of systemic risk in the global financial system. Financial and non-financial risks from climate change can arise through physical and transition risks. In addition, physical and transition risks can trigger further losses, stemming directly or indirectly from legal claims, litigation and conduct liability (referred to as liability risk). As a result, NatWest Group and its customers, suppliers and counterparties face significant climate-related risks. Further progress was made in 2022 in managing climate-related risks, including progress with embedding climate risk into NatWest Group's risk framework, financial planning and the initial iteration of our Climate transition plan. The successful implementation of NatWest Group's climate change-related strategy, ambitions and transition plan will depend to a large extent on many factors and uncertainties beyond NatWest Group's control including the macroeconomic environment, and the effectiveness of actions of governments, regulators, businesses, investors and customers to mitigate the impact of climate-related risks.	
Cyber threats	NatWest Group experiences a constant threat from cyberattacks across the entire NatWest Group and against NatWest Group's supply chain. In 2022, NatWest Group witnessed a small number of attempted Distributed Denial of Service attacks and our supply chain was victim to a small number of ransomware attacks. The focus is to manage the impact of the attacks and sustain availability of services for NatWest Group's customers. As cyberattacks evolve and become more sophisticated, NatWest Group continues to invest in additional capability designed to defend against emerging threats.	
Competitive environment	NatWest Group operates in markets that are highly competitive and with increasing competitive pressures and technology disruption, raising the threat of reduced revenue and lower profitability. The risks mainly relate to changes in regulation, developments in financial technology (including digital currency), new entrants to the market and shifts in customer behaviour. NatWest Group closely monitors the competitive environment and adapts strategy as appropriate to deliver innovative and compelling propositions for customers.	
Regulatory, legal and conduct risks	NatWest Group is subject to extensive laws and regulations and disclosure requirements, which present ongoing compliance and conduct risks. For example, in 2022 these included increased regulatory focus on customer protection via the FCA's Consumer Duty policy statement and final rules and guidance. NatWest Group implements new regulatory requirements, where applicable, and incorporates the implications of related changes in its strategic and financial plans. NatWest Group expects government and regulatory focus on the financial services industry to remain high for the foreseeable future.	

The factors discussed in this section and elsewhere in this document should not be regarded as a complete and comprehensive statement of all risks and uncertainties facing NatWest Group. Refer to the Risk Factors on pages127 to 148 of the Annual Report on Form 20-F for further details.

Internally-focused top and emerging threats		Trend
Change risk	The implementation of NatWest Group's purpose-led strategy, including the refocusing of NatWest Markets and creation of the Commercial & Institutional segment, carry significant execution and operational risks. NatWest Group continues to manage and implement change in line with its strategic plans, while assessing execution risks and taking appropriate mitigating action. In addition, NatWest Group continues to monitor and strengthen its control environment via robust governance and controls frameworks.	↔
Financial crime	Financial crime continues to evolve, whether through fraud, scams, or other criminal activity. NatWest 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, including investment in new technologies and capabilities to further enhance customer due diligence, transaction monitoring, sanctions and anti-bribery and corruption systems. NatWest Group continues to work with law enforcement agencies, industry bodies and regulators to develop intelligence and collaborative solutions to prevent financial crime.	↓
People risk	NatWest Group's success depends on its ability to attract, retain and develop highly-skilled, qualified and diverse personnel, including for technology and data-focused roles, in a highly competitive market and under internal cost reduction pressures. A combination of developing a strong people proposition, close monitoring of attrition levels and colleague wellbeing including versus industry benchmarks are key mitigants.	↔
Third-party suppliers	Operational risks arise from NatWest Group's reliance on third-party suppliers and outsourcing of certain activities across a broad range of activity including the provision of IT services and the adoption of new technology. While the ineffective management of risks related to third-party suppliers could adversely affect NatWest Group, significant resources and planning have been devoted to mitigate the risks. These include robust due diligence, identification of strategic suppliers, appropriate oversight, and monitoring and building close working relationships with the third parties on which NatWest Group relies.	↑
Data management	NatWest Group relies on the effective use of accurate data to support, monitor, evaluate, manage and enhance its operations and deliver its strategy. The availability of current, complete, detailed and accurate 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 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 innovative products and services. NatWest Group continues to be focused on delivering a long-term data strategy alongside enhancing control and policy frameworks governing data usage.	↔

Arrows indicate risk profile trend in 2022 versus 2021

↑ **increased risk**

↓ **decreased risk**

↔ **stable risk**

Non-financial information statement

This non-financial information statement provides an overview of topics and related reporting references in our external reporting as required by sections 414CA and 414CB of the Companies Act 2006. We integrate non-financial and Environmental, Social and Governance (ESG) information across the Strategic report and wider reporting suite, thereby promoting cohesive reporting of non-financial and ESG matters.

ESG reporting frameworks and guidance

We are actively monitoring developments including in relation to metrics. In 2022, our focus included the Sustainability Accounting Standards Board (SASB) standards, the Global Reporting Initiative (GRI) standards, the Task Force on Climate-related Financial Disclosures (TCFD) and the World Economic Forum (WEF) International Business Council (IBC) metrics. As signatories of the UN Principles for Responsible Banking, our ambition is to further align our strategy with the 2015 Paris Agreement and the UN Sustainable Development Goals (SDGs).

Further information on non-financial and ESG matters can be found within our reporting suite.

- Climate-related Disclosures Report
- ESG Disclosures Report
- ESG Frameworks Appendix

Reporting requirement		Page references in this report (2)	Relevant policy or document available at natwest.com (1)
Business model	• Investment case • Our purpose framework • Our business model • Our strategy • Our purpose-led areas of focus • Business performance • Climate-related disclosures	• 10 • 12 to 13 • 18 to 21 • 22 to 23 • 26 to 28 • 29 to 35 • 53 to 63	2022 Climate-related Disclosures Report
Our stakeholders	• Our stakeholders • Section 172(1) statement • Stakeholder focus areas	• 36 to 39 • 40 to 41 • 42 to 52	
Environment	• Market environment • Climate-related disclosures • Risk management • Risk factors	• 16 to 17 • 53 to 63 • 64 to 67 • 127 to 148	Environmental, social and ethical policies
Our colleagues	• Colleagues • Diversity and Inclusion	• 46 to 47 • 48 to 49	Our code of conduct
Governance	• Governance at a glance • Section 172(1) statement • Boardroom Inclusion Policy • Corporate governance • Directors' remuneration report • Report of the directors	• 78 to 79 • 40 to 41 • 80 • 70 to 153 • 124 to 137 • 157 to 160	Boardroom Inclusion Policy
Social matters	• Market environment • Our strategy • Stakeholder focus areas • Our business model	• 16 to 17 • 22 to 23 • 42 to 52 • 18 to 21	Supplier Charter
Respect for human rights	• Respecting human rights	• 52	Human Rights Position Statement
Anti-bribery and corruption (ABC)	• Risk management • Risk and capital management • Training	• 64 to 67 • 162 to 269 • 64, 164	Statement on Anti-Bribery and Corruption
Risk management	• Risk management • Risk and capital management • Risk factors	• 64 to 67 • 162 to 269 • 127 to 148	Environmental, social and ethical policies

(1) Any information contained on websites linked or reports referenced in this section is for information only and will not be deemed to be incorporated by reference herein.

(2) Page numbers refer to sections within Exhibit 15.2, with the exception of page references to risk factors which refer to the Annual Report on Form 20-F.

Governance

In this section

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Our Board

Howard Davies
Chairman



Date of appointment:
14 July 2015 (Board), 1 September 2015 (Chairman)

Committee memberships

N

Contribution to the Board:

Howard brings substantial financial services knowledge and experience to the Board, together with a deep understanding of global economic, environmental and social issues. With extensive board level experience, Howard draws on his prior regulatory and supervisory expertise to contribute both strategic and practical insights to Board discussions and debate. Howard is also a highly adept Chairman with valuable leadership and stakeholder management skills.

Relevant experience:

Howard has held several regulatory roles during his career including Chairman of the UK Financial Services Authority and Deputy Governor of the Bank of England. Howard was Director of the London School of Economics and Political Science and is also Professor of Practice at the Paris Institute of Political Studies (Sciences Po).

Howard has also previously served as a non-executive director of Morgan Stanley and Prudential plc, as Chairman of Phoenix plc and as Chair of the UK Airports Commission.

Current external appointments:

- Chairman of Inigo Limited
- Member of the Regulatory and Compliance Advisory Board of Millennium Management LLC
- Chair of the International Advisory Council of the China Securities Regulatory Commission
- Member of the International Advisory Council of the China Banking and Insurance Regulatory Commission
- Member of the UK Advisory Council of PrimaryBid Limited

Alison Rose DBE
Group Chief Executive Officer



Date of appointment:
1 November 2019

Committee memberships
N/A

Contribution to the Board:

Alison has been instrumental in leading NatWest Group's progress and performance as a purpose-led organisation, since NatWest Group's purpose was announced in February 2020. Having gained a wealth of frontline banking experience during her 30-year career with NatWest, Alison brings a strong customer focus to Board discussions alongside an essential stakeholder lens. Alison is a passionate supporter of diversity and is executive sponsor for NatWest Group's employee-led networks.

Relevant experience:

Having joined as a graduate in 1992, Alison's diverse career at NatWest Group has included a number of senior leadership roles, including Deputy CEO of NatWest Holdings; Chief Executive of Commercial & Private Banking; Head of Europe, Middle East and Africa, Markets & International Banking; and Global Head of International Banking Capital and Balance Sheet. In 2019, Alison was commissioned by the UK Government to report on the barriers to women starting businesses. She now co-leads the Rose Review Board and is responsible for driving forward its recommendations.

Current external appointments:

- Board member of the Institute of International Finance
- Member of the International Business Council for the World Economic Forum
- Vice-Chair of Business in the Community
- Non-executive director of Great Portland Estates plc
- Director of the Coutts Charitable Foundation
- Member of the UK Government's Help to Grow Advisory Council
- Co-Lead of the UK Government's Rose Review Board

Katie Murray
Group Chief Financial Officer



Date of appointment:
1 January 2019

Committee memberships
N/A

Contribution to the Board:

Katie is a Chartered Accountant with nearly 30 years' experience in finance and accounting gained through several roles across the financial services industry. Katie's deep knowledge and experience in specialist areas including capital management, investor relations and financial planning mean she is well placed to provide valuable input and expertise during Board discussions.

Relevant experience:

Katie joined NatWest Group as Director of Finance in 2015 and was appointed as Deputy Chief Financial Officer in March 2017. She was appointed as Chief Financial Officer in January 2019.

Katie was previously the Group Finance Director for Old Mutual Emerging Markets, based in Johannesburg (2011-2015), having held various roles across Old Mutual from 2002. Prior to this Katie worked at KPMG for 13 years. She is a member of the Institute of Chartered Accountants in Scotland.

Current external appointments:

- Non-executive director of Phoenix Group Holdings plc

Board Committees

A	Group Audit Committee
N	Group Nominations & Governance Committee
Re	Group Performance & Remuneration Committee
Ri	Group Board Risk Committee
S	Group Sustainable Banking Committee
T	Technology & Innovation Committee

Underline denotes Committee Chair

Mark Seligman
Senior Independent Director



Date of appointment:
1 April 2017 (Board), 1 January 2018 (Senior Independent Director)

Committee memberships
A N Re

Contribution to the Board:
Mark, a former senior investment banker, brings comprehensive financial services knowledge and substantial FTSE 100 board experience to the Board. A former boardroom adviser, Mark contributes significant banking and corporate transformation expertise in particular, alongside a range of customer and wider stakeholder engagement skills.

Relevant experience:
Mark has held various senior roles at Credit Suisse/BZW during his executive career, including Deputy Chairman, CSFB Europe and Chairman, UK Investment Banking, CSFB.

Mark has served as a non-executive director on company boards across a range of industry sectors, including BG Group plc, as Senior Independent Director of Kingfisher plc, and as Deputy Chairman of G4S plc. He has significant experience of chairing committees and as a Senior Independent Director.

Current external appointments:
- Non-executive director of Smiths Group plc
- Non-executive director and trustee of The Brooklands Museum

Frank Dangeard
Independent non-executive director



Date of appointment:
16 May 2016

Committee memberships
Re T

Contribution to the Board:
Frank is a former investment banker and technology company CEO with substantial global board expertise. This broad background enables Frank to make a valuable contribution to Board discussions, particularly in relation to technology, digital and innovation matters. Frank's experience also encompasses key areas including customer experience, stakeholder engagement, ESG and risk. In April 2018, Frank assumed the role of Chairman of NatWest Markets Plc, which enables him to bring a unique perspective to Board debate.

Relevant experience:
During his executive career, Frank held various roles at Thomson S.A., including Chairman and Chief Executive Officer, and was Deputy Chief Executive Officer of France Telecom. Prior to that he was Chairman of SG Warburg France and Managing Director of SG Warburg.

Frank has also held a number of non-executive roles at Crédit Agricole CIB, EDF, Home Credit, Orange, Sonaecom SGPS and Arqiva Group Limited. He was also Deputy Chairman and acting Chairman of Telenor ASA, an international media communications group.

Current external appointments:
- Chairman of Gen Digital Inc.
- Non-executive director of IHS Holding Limited
- Non-executive director of SPEAR Investments I B.V.
- Chairman of the Advisory Board of STJ Advisors

Roisin Donnelly
Independent non-executive director



Date of appointment:
1 October 2022

Committee memberships
N/A

Contribution to the Board:
Roisin brings extensive customer, marketing and branding experience to the Board, gained during her long executive career at Procter & Gamble. She has a strong background in digital transformation and data and significant knowledge and experience of developing ESG strategies at board level. Roisin also brings practical board and committee experience to the role, having served on a number of listed company boards.

Relevant experience:
Roisin spent over 30 years leading marketing and brand building at Procter & Gamble in different UK and international roles. Most recently Roisin served as Chief Marketing Officer for Procter & Gamble Northern Europe (2014-2016) and prior to that served as Chief Marketing Officer for Procter & Gamble UK and Ireland (2002-2014).

Roisin's previous non-executive directorships include HomeServe plc, Just Eat plc, Holland and Borrett Limited and Bourne Leisure Limited.

Roisin is an Honorary Fellow of the Marketing Society.

Current external appointments:
- Non-executive director of Premier Foods plc
- Non-executive director of The Sage Group plc
- Member of the Digital Advisory Board, Coca Cola Europacific Partners plc
- Non-executive Advisor, Internet Advertising Bureau

Patrick Flynn
Independent non-executive director



Date of appointment:
1 June 2018

Committee memberships

A N Ri T

Contribution to the Board:

Patrick contributes significant retail and commercial banking experience to the Board, together with a background in complex organisational restructuring and technology transformation. This experience enables Patrick to provide insightful contributions to Board discussions on complex matters, alongside his significant financial knowledge and expertise.

Relevant experience:

Patrick was the Chief Financial Officer and a member of the Executive Board of ING Group for over eight years to May 2017. Prior to that, he worked for HSBC for 20 years. Patrick is a Fellow of Chartered Accountants Ireland.

Current external appointments:

- Non-executive director and Senior Independent Director of Aviva plc

Morten Friis
Independent non-executive director



Date of appointment:
10 April 2014

Committee memberships

A N Ri

Contribution to the Board:

Morten is a former frontline banker, who subsequently became a Chief Risk Officer in a universal bank. He has in-depth knowledge and expertise in risk management within the financial services industry, which enables him to make a substantial contribution to Board discussions and debate on risk matters. Morten is also knowledgeable in regulatory matters, capital markets, transformation management and corporate resolution.

Relevant experience:

Morten's extensive executive career included various roles at Royal Bank of Canada and its subsidiaries, such as Senior Vice President, Group Risk Management, Chief Credit Officer and then Chief Risk Officer. Previously he was also a Director of RBC Bank (USA); Westbury Life Insurance Company; RBC Life Insurance Company; and RBC Dexia Investor Services Trust Company.

Morten also served as a non-executive director of Jackson National Life Insurance Company for five years, and was chair of its board risk committee and a member of its audit committee.

Current external appointments:

- Member of the board of directors of the Harvard Business School Club of Toronto

Yasmin Jetha
Independent non-executive director



Date of appointment:
1 April 2020

Committee memberships

S T

Contribution to the Board:

Yasmin brings a wealth of retail banking and customer experience to the Board, as well as valuable technology and innovation insights, and a strong background in general management. Yasmin adds strength and depth to the Board in these important areas, supporting challenge and debate and effective decision-making.

On 1 April 2020 Yasmin re-joined the Board of NatWest Group plc, having first been appointed in June 2017. Yasmin stepped down in April 2018 in order to serve solely as a director of our key ring-fenced entities, and, like the majority of our directors, she continues to serve on these boards in addition to the Board of NatWest Group plc.

Relevant experience:

During her executive career, Yasmin held Chief Information Officer roles at Bupa and the Financial Times, where she later became the Chief Operating Officer. Prior to that Yasmin held a number of senior roles at Abbey National PLC, in a career spanning nearly 20 years, where latterly she served as an executive director on the board.

Yasmin has also held a number of non-commercial roles including Vice Chair of the Board of Governors at the University of Bedfordshire (2008 to 2011) and Vice Chair of the National Committee of the Aga Khan Foundation (UK) Ltd, a non-denominational charity that works with communities in Africa, Asia and the Middle East.

Current external appointments:

- Non-executive director of Guardian Media Group plc
- Non-executive director of Nation Media Group Limited

Mike Rogers
Independent non-executive director



Date of appointment:
26 January 2016

Committee memberships

Re S

Contribution to the Board:

Mike is an extremely experienced retail and commercial banker, with extensive boardroom experience. As a former Chief Executive, Mike brings a broad-based skill set and perspective to the Board, particularly in relation to customer experience, general management and stakeholder engagement.

Relevant experience:

During his executive career Mike was Chief Executive of Liverpool Victoria Group and he held a variety of roles, both in the UK and overseas, at Barclays Bank. This included roles in business banking, wealth management and retail banking where Mike was Managing Director of Small Business, Premier Banking and UK Retail Banking.

Current external appointments:

- Chairman of Experian plc
- Chairman of Aegon UK plc

Lena Wilson
Independent non-executive director



Date of appointment:
1 January 2018

Committee memberships

N Re Ri S

Contribution to the Board:

Lena contributes significant knowledge and experience to the Board drawn from a broad executive and non-executive career. She has extensive transformation and development skills, with experience in enterprise, internationalisation, stakeholder management, ESG and general management.

As former Chair of the NatWest Group Colleague Advisory Panel, Lena provides valuable insights on customer, people and enterprise issues in particular.

Relevant experience:

Lena has a portfolio of Chair roles in the listed, private equity and professional services sectors. She has been a FTSE 100 non-executive director for over 10 years and previously served on the boards of Scottish Power Renewables Limited and Intertek Group plc. Lena was Chief Executive of Scottish Enterprise (2009-2017) and prior to that was Senior Investment Advisor to The World Bank in Washington DC.

Lena was a member of Scotland's Financial Services Advisory Board and Chair of Scotland's Energy Jobs Taskforce. In June 2015 she received a CBE for services to economic development in Scotland.

Current external appointments:

- Chair of Picton Property Income Limited
- Chair of AGS Airports Limited (until 31 May 2023)
- Senior Independent Director of Argentex Group plc (until 28 February 2023)
- Chair of Chiene + Tait LLP
- Visiting Professor, University of Strathclyde Business School
- Member of the European Advisory Board of Workday Inc.

Jan Cargill
Chief Governance Officer and Company Secretary



Date of appointment:
5 August 2019

Contribution to the Board:

Jan works closely with the Chairman to ensure effective and efficient functioning of the Board and appropriate alignment and information flows between the Board and its Committees. She is responsible for advising the Board and individual directors on all governance matters, and also facilitates Board induction and directors' professional development.

Relevant experience:

Jan is a chartered company secretary with over 20 years' corporate governance experience. She was appointed Chief Governance Officer and Company Secretary in 2019, and prior to that held various roles in the legal and secretariat functions, including Head of Board and Shareholder Services.

Jan has a law degree and is a Fellow of the Chartered Banker Institute. She is also an Associate of The Chartered Governance Institute and has an INSEAD Certificate in Corporate Governance.

Former directors

Robert Gillespie stood down from the Board as an independent non-executive director on 15 December 2022.

Chairman's introduction



Letter from Howard Davies, Chairman of the Board

Dear Shareholder,

I am pleased to present the Corporate governance report for 2022.

My Board colleagues and I welcomed the return of in-person meetings during the year. We also resumed regional stakeholder visits, with a trip to Bristol to meet customers, colleagues, community organisations and suppliers. We heard stakeholders' perspectives first hand and discussed how we can best support them in these challenging times.

During a period of significant change in the external environment, the Board was kept regularly informed by management on the impacts of geopolitical and economic developments on the bank and its customers. Reports from our Group CEO and business CEOs included spotlights on the cost-of-living crisis and the continuing situation in Ukraine, and we discussed the actions the bank was taking in response.

Strategy and climate were also high on the Board's agenda. Directors were closely involved in our plans to amplify our purpose-led strategy as described more fully in the Strategic report on pages 40 to 41 of this document. Following strong shareholder support for our 'Say on Climate' AGM resolution, the Board continued its close oversight of progress towards our climate ambitions ahead of publication of the initial iteration of our Climate transition plan.

On the governance front we conducted an internal Board and Committee evaluation, and further information on the actions we agreed can be found on pages 90 to 91 of this document.

The following pages describe additional 2022 governance highlights, including details of Board and Committee membership changes. Details of the Board's operation and principal areas of focus during 2022 are set out on pages 91 and 94 respectively of this document..

I would like to thank my fellow Board members for their contribution, commitment and dedication throughout the year.

Howard Davies
Chairman of the Board
16 February 2023

UK Corporate Governance Code

All directors are committed to observing high standards of corporate governance, integrity and professionalism. Throughout 2022, NatWest Group plc applied the Principles and complied with all of the Provisions of the 2018 UK Corporate Governance Code (the Code) with the following exceptions:

Provision 17 – that the Group Nominations and Governance Committee should ensure plans are in place for orderly succession to both the board and senior management positions, and oversee the development of a diverse pipeline for succession; and

Provision 33 – that the Group Performance and Remuneration Committee should have delegated responsibility for setting remuneration for the Chairman and executive directors.

The Board considers these are matters that should be reserved for the Board.

Information on how the company has applied the Principles and complied with the Provisions of the Code can be found in this report under the Code's five main section headings:

1 Board leadership and company purpose (page 82)

2 Division of responsibilities (page 86)

3 Composition, succession and evaluation (page 88)

4 Audit, risk and internal control (page 91)

5 Remuneration (page 91)

Our full 2018 UK Corporate Governance Code compliance statement is available on page 154 of this document.

Board and Committee meetings

There were eight scheduled Board meetings during 2022.

As well as scheduled meetings, additional ad hoc meetings of the Board and some of its Committees were held throughout the year to receive updates and deal with time-critical matters. There were three additional Board meetings held in 2022 compared to eight additional meetings held in 2021.

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

There were also three strategy sessions with executive management in 2022.

In accordance with the Code, the Chairman and the non-executive directors met at least once without executive directors present.

Board and Committee membership and meeting attendance in 2022

	Board		Group Audit Committee (GAC)		Group Board Risk Committee (BRC)		Group Nominations and Governance Committee (N&G)		Group Performance and Remuneration Committee (RemCo)		Group Sustainable Banking Committee (SBC)		Technology and Innovation Committee (TIC)	
Director	Scheduled	Ad hoc	Scheduled	Ad hoc	Scheduled	Ad hoc	Scheduled	Ad hoc	Scheduled	Ad hoc	Scheduled	Ad hoc	Scheduled	Ad hoc
Howard Davies	8/8	3/3	–	–	–	–	4/4	–	–	–	–	–	–	–
Alison Rose[1]	8/8	2/2	–	–	–	–	–	–	–	–	–	–	–	–
Katie Murray[1]	8/8	–	–	–	–	–	–	–	–	–	–	–	–	–
Frank Dangeard	8/8	3/3	–	–	–	–	–	–	6/6	3/3	–	–	4/4	–
Roisin Donnelly[2]	2/2	–	–	–	–	–	–	–	–	–	–	–	–	–
Patrick Flynn	8/8	3/3	5/5	1/1	8/8	–	4/4	–	–	–	–	–	4/4	–
Morten Friis	8/8	3/3	5/5	1/1	8/8	–	4/4	–	–	–	–	–	–	–
Robert Gillespie[3]	8/8	3/3	5/5	1/1	8/8	–	4/4	–	4/4	3/3	–	–	–	–
Yasmin Jetha	8/8	3/3	–	–	–	–	–	–	–	–	5/5	1/1	4/4	–
Mike Rogers	8/8	3/3	–	–	–	–	–	–	6/6	3/3	5/5	1/1	–	–
Mark Seligman[4]	8/8	3/3	5/5	1/1	–	–	4/4	–	6/6	2/3	–	–	–	–
Lena Wilson[5]	8/8	2/3	–	–	8/8	–	2/2	–	6/6	3/3	5/5	1/1	–	–

(1) Executive directors are not eligible to attend meetings to discuss their own remuneration.
(2) Ms Donnelly joined the Board on 1 October 2022.
(3) Mr Gillespie stood down as Chair and as a member of RemCo with effect from 24 September 2022. Mr Gillespie stood down as a director on 15 December 2022.
(4) Mr Seligman was unable to attend one ad hoc RemCo meeting due to prior commitments.
(5) Ms Wilson assumed the Chair of RemCo and became a member of N&G with effect from 24 September 2022. Ms Wilson was unable to attend one ad hoc Board meeting due to prior commitments.

How the Board operated in 2022

At each scheduled Board meeting the directors received reports from the Chairman, Board Committee Chairs, Group CEO, Group CFO, Group Chief Risk Officer (Group CRO) and other members of the executive management team, as appropriate. Business reviews from the CEOs of our Retail Banking, Private Banking and Commercial & Institutional businesses included updates on progress against strategy and spotlights on current topics including the cost of living, Ukraine, climate, unsecured lending growth in retail, and mortgages.

In addition to our business CEOs, a number of other senior executives attended Board meetings throughout the year to present reports to the Board. This provided the Board with an opportunity to engage directly with management on key issues and supported succession planning. The Board also welcomed external presenters and advisers to Board meetings, who provided useful insights and perspectives.

The Board and Group Executive Committee (ExCo) operating rhythm continues to support a proactive and transparent agenda planning and paper preparation process. This process includes the following elements:

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

An overview of the Board's principal areas of focus during 2022, is set out on page 80.

Governance at a glance

The Board is collectively responsible for promoting the long-term success of NatWest Group plc, driving both shareholder value and contribution to society. To assist in providing effective oversight and leadership, the Board has established the following committees:

NatWest Group plc Board

Group Audit Committee (GAC)	Group Board Risk Committee (BRC)	Group Nominations and Governance Committee (N&G)	Group Performance and Remuneration Committee (RemCo)	Group Sustainable Banking Committee (SBC)	Technology and Innovation Committee (TIC)
see page 94 of this document	see page 103 of this document	see page 92 of this document	see page 124 of this document	see page 114 of this document	see page 120 of this document

The Group CEO has established the Group Executive Committee (ExCo) to support her in discharging her responsibilities in managing NatWest Group's business day to day. Further information on our governance structure is available throughout this Corporate governance report.

Board changes during 2022

24 September

Robert Gillespie confirmed his intention to step down as a non-executive director on 15 December 2022.

Lena Wilson succeeded Robert Gillespie as RemCo Chair and joined N&G.

1 October

Roisin Donnelly joined the Board as an independent non-executive director.

15 December

Robert Gillespie stepped down as a non-executive director.

Board changes during 2023

1 April

Stuart Lewis will be appointed as an independent non-executive director.

25 April

Mike Rogers will step down as a non-executive director.

31 July

Morten Friis will step down as a non-executive director.

Governance highlights

During 2022 our governance framework supported our strategic delivery in a number of ways, including

Implementing a **revised strategy cycle and operating rhythm** at Board and ExCo level.

Implementing a **remuneration policy for executive directors** that provides a more direct link between pay and the delivery of our purpose-led strategy

Reviewing the Board's approach to **colleague engagement**

Creating **more opportunities** for Board stakeholder engagement

Conducting an internal **Board and Committee evaluation**

Completing a successful **external audit tender** process

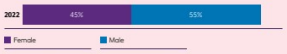
Board oversight of our **progress and performance as a purpose-led organisation**

Supporting directors' professional development through regular training sessions

Board composition as at 31 December 2022

Gender

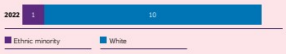
%



There are 11 directors on the Board, five female and six male. At the end of 2022, 45% of the Board were female, which exceeded the FTSE Women Leaders Review target of 40% female Board representation by the end of 2025.

Ethnicity

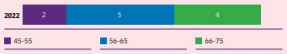
No. of directors



Throughout 2022 the Board met the Parker Review's recommendation with at least one director from an ethnic minority background.

Age range

No. of directors



Length of tenure

Chairman and non-executive directors



Executive vs non-executive directors and independence

No. of directors



The Board considers all eight non-executive directors to be independent and the Chairman was considered to be independent on appointment.

Skills and experience



The Board is structured to ensure that the directors provide an appropriate combination of skills, experience and knowledge as well as independence.

The bar chart above is an extract from our Board skills matrix, which is reviewed by the Group Nominations and Governance Committee and approved by the Board annually.

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

Boardroom inclusion policy

Our boardroom inclusion policy aims to promote diversity and inclusion in our Board and Board Committee composition, and in the nominations and appointments process.

Further information can be found on page 93, and a copy of the policy is available at natwestgroup.com.

Principal areas of Board focus

Purpose and strategy (including climate)

- Strategy sessions with executive management
- Board business insights pack
- Brand portfolio update
- The initial iteration of our Climate transition plan
- Progress against purpose
- One Bank Transformation spotlights (digitisation and distribution; technology and data; innovation, partnerships and ventures; portfolio discipline)
- 'Say on Climate' AGM resolution

Customers

- Business reviews
- Complaints
- Consumer Duty implementation plans
- Group CEO reports
- One Bank Transformation spotlights (customer lifecycle; customer journeys)
- Retail unsecured growth and strategy update[1]
- Mortgages update[1]

Colleagues[2]

- Colleague Advisory Panel reports
- Colleague survey results
- Executive director remuneration policy
- Executive talent and succession plans

Culture

- 2021 Modern Slavery and Human Trafficking Statement
- Board business insights pack
- Colleague Advisory Panel reports
- Colleague survey results
- Culture measurement reports
- One Bank Transformation spotlights (organisation, skills and culture)

(1) These updates were provided at meetings of the NWH Sub Group Boards where the directors of NatWest Group plc were also in attendance as NWH Sub Group directors or observers. In this report, NWH Sub Group means NatWest Holdings Limited, National Westminster Bank Plc and The Royal Bank of Scotland plc.
(2) References to 'colleagues' in this report mean all members of our workforce (which includes contractors and agency workers).

Financial

- 2021 Annual Results
- Q1, H1 and Q3 2022 Results
- 2021 Climate-related Disclosures Report
- 2021 ESG Supplement
- Budget
- Capital distributions
- External audit tender
- Group CFO reports
- Internal Capital Adequacy Assessment Process results
- Internal Liquidity Adequacy Assessment Process results
- Off Market Directed Buyback
- One Bank Transformation spotlights
- Recovery plans
- Resolvability self-assessment

Risk and conduct

- 2022 cyber stress test results
- Climate Biennial Exploratory Scenario Round 2 submission
- Cyber risk 'war game'
- Enterprise-wide risk management framework
- Financial crime updates
- Operational resilience self-assessment
- Risk appetite
- Risk management reports

Legal, governance and regulatory

- Annual Cyclical Scenario stress test results
- Annual General Meeting arrangements
- Board and Committee appointments
- Board evaluation actions
- Board succession plans
- Boardroom inclusion policy
- Directors' external appointments
- Governance framework updates
- Group CRO appointment
- Health and safety annual review
- Legal and regulatory reports
- Outsourcing arrangements and third party risk management
- Regulatory correspondence
- Shareholding policy – Chairman and non-executive directors

Subsidiary governance and ring-fencing

NatWest Group plc is a listed company with equity listed on the London and New York stock exchanges.

NatWest Holdings Limited (NWH Ltd) is the holding company for our ring-fenced operations, which include our Retail and Private Banking businesses and certain aspects of our Commercial & Institutional business. A common board structure is operated such that the directors of NWH Ltd are also directors of The Royal Bank of Scotland plc (RBS plc) and National Westminster Bank Plc (NWB Plc). Known collectively as the NWH Sub Group, the boards of these three entities meet concurrently.

An integral part of NatWest Group's governance arrangements is the appointment of three double independent non-executive directors (DINEDs) to the Boards, and Board Committees, of the NWH Sub Group. They are Francesca Barnes, Graham Beale, and Ian Cormack. Abridged biographies for the DINEDs are presented below with more detailed biographies available at natwestgroup.com (NatWest Holdings Limited section).

The DINEDs are independent in two respects: (i) independent of management as non-executives; and (ii) independent of the rest of NatWest Group by virtue of their NWH Sub Group-only directorships. They attend NatWest Group plc Board and relevant Board Committee meetings as observers.

Our DINEDs play a critical role in NatWest Group's ring-fencing governance structure, and are responsible for exercising appropriate oversight of the independence and effectiveness of the NWH Sub Group's governance arrangements, including the ability of each Board to take decisions independently. When our Commercial & Institutional business was stood up during 2022, the DINEDs considered and provided input on the changes proposed specifically from a ring-fenced bank perspective, ahead of NatWest Group plc and NWH Ltd Board discussions.

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

The Group Nominations and Governance Committee monitors the governance arrangements of NatWest Group plc and its subsidiaries and approves appointments to the Boards of principal and material regulated subsidiaries, as described in the Group Nominations and Governance Committee report on page 92.

Graham Beale

NWH Sub Group – Senior Independent Director and double independent non-executive director



Date of appointment:

1 May 2018

As a chartered accountant, Graham brings extensive financial knowledge to the Board alongside his executive management experience, predominantly in retail banking. This enables Graham to provide comprehensive input to Board discussions.

Graham served as Chief Executive Officer of Nationwide Building Society, the UK's largest mutual institution and the world's largest building society from 2007 to 2016.

In a non-executive capacity, Graham has been a member of the boards of VISA Europe Limited and the British Bankers' Association. He was also Chair and member of the Financial Conduct Authority Practitioners Panel and Chair and a member of the board of the Building Societies Association.

Francesca Barnes

NWH Sub Group – Double independent non-executive director



Date of appointment:

1 May 2018

Francesca brings a wealth of banking and private equity experience to the Board gained through an extensive executive career. Francesca's experience provides considerable knowledge in important areas such as customer experience, risk and stakeholder management.

Francesca started at Chase Manhattan Bank and went on to hold a number of senior roles within UBS Investment Bank including Global Head of Private Equity; Head of Strategy and Development; Global Loan Portfolio Manager and Chair of the UBSIB Development Board.

Francesca is currently the Senior Independent Director of HarbourVest Global Private Equity Limited and previously served on the Board of Coutts & Co (2012-2021), a Natwest Group subsidiary.

Ian Cormack

NWH Sub Group – Double independent non-executive director



Date of appointment:

1 May 2018

Ian's extensive financial services career provides him with significant experience in commercial and investment banking, with particular focus on customer and risk management. This knowledge combined with Ian's understanding of financial infrastructures, strategy and transformation provides invaluable input into Board discussions.

Ian spent 30 years with Citibank/Citigroup where he held a number of senior positions, including UK Country Head (CCO), Head of European Training and Co-Head of the Global Financial Institutions Business.

Ian is the Senior Independent Director of Just Group plc and has previously held non-executive positions with Phoenix Group Holdings plc, Hastings Group Holdings plc, Bloomsbury Publishing plc and Broadstone Acquisition Corporation Inc.

2018 UK Corporate Governance Code

Throughout the year the company has applied the Principles and complied with the Provisions of the Code, except in relation to Provisions 17 and 33, as described on page 76 and explained more fully in our statement of compliance on page 154.

In addition, the Board has delegated two particular aspects of the Code's provisions to Board Committees, with regular updates provided to the Board as appropriate:

- The Group Audit Committee has delegated responsibility for reviewing and monitoring NatWest Group's whistleblowing process.
- The Group Sustainable Banking Committee has delegated responsibility for reviewing key workforce policies and practices (not related to pay) to ensure they are consistent with NatWest Group's values and support long-term sustainable success.

For further information please refer to the remainder of this report and the relevant Board Committee reports on the following pages.

Further information on how the company has applied the Principles and complied with the Provisions of the Code is set out here under the Code's five main section headings.

1. Board leadership and company purpose

Role of the Board

The Board is collectively responsible for promoting the long-term sustainable success of the company, driving both shareholder value and contribution to wider society. The Board's role is to provide leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board establishes NatWest Group's purpose, values and strategy and leads the development of NatWest Group's culture. The Board sets the strategic aims of the company and its subsidiaries, ensures that the necessary resources are in place for NatWest Group to meet its objectives, is responsible for the raising and allocation of capital, and reviews business and financial performance. It ensures that the company's obligations to its shareholders and other key stakeholders are understood and met.

The Board terms of reference include a formal schedule of matters specifically reserved for the Board's decision and are reviewed at least annually. They are available at natwestgroup.com. An internal review confirmed the Board had fulfilled its remit as set out in its terms of reference during 2022.

Board Committees

The Board has established a number of Board Committees with particular responsibilities. Further details on Board Committee activities during the year can be found in the Board Committee reports. Board Committee terms of reference are available at natwestgroup.com.

Purpose

In February 2020 following an extensive period of stakeholder engagement, the Board approved NatWest Group's purpose. Our focus on purpose has strengthened the Board's consideration of the interests of all of our stakeholders and papers presented to the Board set out how they support our purpose. Examples of how purpose has guided Board decisions and discussions can be found in our section 172 statement on pages 40 to 41.

In April 2022 the Board received an assessment of progress on embedding purpose and updates on each of the focus areas of enterprise, climate and financial capability/learning. Directors considered the outputs of a colleague opinion survey which had demonstrated good progress on embedding our purpose and values.

The Board received a further purpose update in December 2022. This included an overview of our evolution to becoming a purpose-led bank, an assessment of progress on embedding our purpose, achievements to date, external perceptions of our progress and future priorities. The directors received a further update on the three focus areas and considered a broader stakeholder overview aligned to the Blueprint for Better Business framework.

Strategy

In response to an action arising from the 2021 Board evaluation, a new operating rhythm was introduced for Board engagement and oversight of strategy during 2022. This included more frequent strategy sessions with executive management and interactive sessions informed by stakeholder views, as described below.

Board oversight and engagement on strategy in 2022

March Listening and reflecting	The Board considered insights into evolving customer needs and future trends from a comprehensive programme of stakeholder listening. Directors joined breakout groups to discuss key themes, collaborating with the executive management team and Junior Management Team members.
June Strategic vision	Building on the insights gained in March the Board agreed key areas of focus and a vision for our purpose-led strategy, including exploring the opportunities for sustainable growth.
October A strategic plan	The Board reviewed and confirmed its support for a strategic plan consistent with the ambition discussed in June, including the identification of three growth areas where we can amplify our strategy.

Directors commented positively on the new operating rhythm during the 2022 Board evaluation. Throughout the process there was strong engagement and constructive debate amongst directors and management.

Further information on NatWest Group's strategy can be found on pages 22 to 23 of the Strategic report.

Values

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

Further information on NatWest Group's values can be found in the Strategic report on page 47.

Culture

The Board assesses and monitors NatWest Group's culture in several ways, as described below.

NatWest Group plc – Board responsibilities in relation to culture
• Leads the development of NatWest Group's culture, values and standards. • Assesses and monitors culture. • Reviews and approves NatWest Group's values.

Board reporting on culture	
What did the Board receive?	**Key areas of focus and outcomes**
Colleague Advisory Panel reports	Feedback on discussions from Colleague Advisory Panel (CAP) meetings held in May and November. Topics included remuneration (executive pay and the wider workforce), our values, customers in vulnerable situations and future skills.
One Bank Transformation spotlights on organisation, skills and culture	Progress updates (in April and October) on the transition towards a simpler overall organisational design; creating and embedding a One Bank culture, values and people proposition; and strategic workforce planning.
Our View colleague survey results	Insights from the colleague opinion surveys conducted in April and September. Key measures included culture, purpose, building capability, inclusion, engagement and leadership. In July the Board received an update on actions agreed by ExCo following the April Our View survey around ways of working, senior female retention, verbatim comments analysis and NatWest Group's wellbeing approach post COVID-19.
Culture measurement reports	The NatWest Group culture measurement framework enables the Board and senior leaders to assess the progress NatWest Group is making in reshaping its culture. It uses an integrated suite of qualitative, quantitative, internal and external data sources to support NatWest Group in assessing the effectiveness and impact of its culture journey (120 measures in total). These include customer insights and data (e.g. Net Promoter Scores (NPS) and Competition & Markets Authority (CMA) survey results), colleague engagement insights (e.g. CAP feedback), Our View colleague survey insights, risk culture data, audit and behavioural risk data, supplier and environmental measures, and a range of externally benchmarked ESG data. Board culture measurement reports were considered in July and December. These used the Blueprint for Better Business framework to report progress, highlighting both positive trends and areas for improvement. In July the Board discussed the report in detail with management and sought further information across several themes including colleague sentiment amid cost-of-living impacts and financial wellbeing. The December report noted that although there had been some downward pressure on a number of metrics since the July report – particularly colleague sentiment and customer measures where the cost-of-living crisis and general economic conditions were undoubtedly having an impact – the overall picture was relatively stable.
Board business insights packs	Metrics to demonstrate how NatWest Group is delivering for colleagues (including building capability, diversity and inclusion, and learning).

The activities described above have supported the Board in meeting the Code requirement to satisfy itself that the company's purpose, values, strategy and culture are aligned.

Stakeholder engagement

In February 2022, the Board approved its annual objectives and confirmed the Board's key stakeholder groups – customers, investors, regulators, colleagues, communities and suppliers. The Board's agenda and engagement plans were structured to enhance the Board's understanding of stakeholders' views and interests. This in turn has informed Board discussions and decision-making.

The Chairman also provided regular updates to the Board on meetings with regulators, key stakeholders and other relevant bodies including clients, financial institutions, advisers, and government and media representatives.

The stakeholder engagement section of the Strategic report on pages 36 to 39 includes some high level examples of how the Board engaged directly with stakeholders, and our section 172 statement on pages 40 to 41 describes how stakeholder interests have been considered in Board discussions and decision-making, including principal decisions.

In addition to the examples highlighted in the Strategic report, the Board engaged with the views and interests of stakeholders in a variety of other ways:

- **Customers**: the Group CEO and business CEOs regularly updated the Board on customer engagement activity and sentiment, including CMA and NPS results. An update on customer complaint volumes and key themes arising provided a useful indicator of external sentiment, highlighting key trends in customer complaints and areas of focus for improvement activity.
- **Investors**: in addition to engaging directly with institutional investors through quarterly results presentations and 1:1 meetings, the Board also considered investor feedback reports and updates from the Group CFO on external market perspectives, including share price performance and trading activity, which allowed the Board to monitor investor activity. Directors engaged with private shareholders and responded to questions they raised through our virtual shareholder events and at our Annual General Meeting. The Board also held roundtable discussions with three institutional investors, enabling a valuable two-way dialogue on a range of topics including the investors' views of NatWest Group and wider global and economic trends. The Chair of the Group Performance and Remuneration Committee met with institutional shareholders, UK Government Investments, proxy advisers and the UK regulators to discuss remuneration matters, including wider workforce pay proposals and executive directors' remuneration policy and updated the Board on those discussions. Further details of remuneration engagement can be found in the Directors' remuneration report on pages 124 to 153.
- **Regulators**: in addition to having PRA and FCA representatives join Board meetings to present the findings of their Periodic Summary Meeting and Firm Evaluation Letter respectively, the Board also reviewed regulatory correspondence and proposed responses. This enabled directors to understand the key matters raised and how management were addressing them. Reports from the Group CEO, Group CFO and business CEOs kept the Board informed on key topics being discussed by management with regulators, enhancing the Board's understanding of regulatory priorities.
- **Colleagues**: the Board continued to engage with colleagues through our multi-channel colleague listening approach, further details of which are set out on page 85 under 'Workforce engagement'.
- **Communities**: During our regional Board visit to Bristol, the Board met with community groups involved with young people, climate change and supporting ethnic minority businesses, and gained useful insights into the bank's work with those groups. Directors also continued to develop their climate knowledge and expertise, through our annual climate training session and detailed consideration of our Climate transition plan.
- **Suppliers**: the Board received regular management updates on key supplier and partnership relationships and initiatives being undertaken with them. Directors also met with suppliers during their visit to Bristol and participated in a dedicated training session on how we are embedding diversity in our supply chain.

Workforce engagement

During 2022, and in response to one of the actions arising from the 2021 Board evaluation exercise, we reviewed our colleague listening and talent engagement strategy at ExCo and Board levels, including the role of the Colleague Advisory Panel, to ensure it remained fit for purpose.

The Board agreed to continue its multi-channel approach to colleague engagement at Board level, as described below:

Our multi-channel colleague listening approach

A number of listening and reporting tools help in promoting colleague voice in the boardroom. This multi-channel approach aims to provide representation from across the bank and guards against the risks of relying on a single source to gather views.

Colleague surveys and behavioural audits

The Board and Group Sustainable Banking Committee receive the results of the Our View colleague surveys which provide insight at all levels and aspects of colleague experience.

Another valuable Board-level source is Behavioural Audit reports from Internal Audit covering sub-culture findings.

Colleague Advisory Panel

Provides a means by which 'colleague voice' can be strengthened and promoted within the Boardroom.

Board members engage directly with colleagues on strategic topics. A key outputs report supports discussion at the next scheduled Board meeting.



Management reporting and activities

Board-level reporting from the Group CEO and the executive management team includes insights on colleague engagement, wellbeing and development.

Board talent sessions and other direct engagement

Directors meet with potential executive-level successors and explore strategic issues with them.

At 'Meet the Board' events colleagues meet the Chairman, Group CEO and non-executive directors to discuss topical issues.

Other examples of direct engagement include Board Committee visits to Risk and Audit teams, the Chairman meeting with each new graduate intake and internal guest presenters at Board and Committee meetings.

Board and Committee paper templates

Colleagues is one of a number of stakeholder groups included within our governance paper templates.

Our reporting guidance encourages paper authors and sponsors to consider colleague views or impact when presenting reports to our Board and its Committees.

Our Colleague Advisory Panel

NatWest Group's Colleague Advisory Panel (CAP) was set up in 2018 to help promote colleague voices in the boardroom and supports our compliance with Code requirements in relation to Board engagement with the workforce.

Through the CAP, colleagues can engage directly with the Board on topics which are important to them, thereby strengthening the voice of colleagues in the Boardroom. The CAP is made up of 28 colleagues who are self-nominated or part of an employee representative body. In September 2022 Mike Rogers succeeded Lena Wilson as CAP Chair, and the panel's membership was refreshed. New members received training on the role of the CAP and their responsibilities as members. Although members were randomly selected, we cross-checked to ensure the panel was in the main reflective of the bank's population covering a variety of business areas, organisational levels and locations, working patterns and employee-led networks.

The CAP met with representatives from the Board twice in 2022 to discuss issues including remuneration (executive pay and the wider workforce), our values, customers in vulnerable situations and future skills. The CAP continues to be highly regarded by those who attend and has proven to be an effective way of establishing two-way dialogue between colleagues and Board members. The Board discusses colleague feedback received from the CAP and the CAP Chair provides feedback on this discussion to the Panel to ensure a continuous feedback loop.

Further details on NatWest Group's approach to investing in and rewarding its workforce can be found on pages 46 to 47 of the Strategic report.

The effectiveness of Board stakeholder engagement mechanisms continues to be considered during the annual Board evaluation.

Conflicts of interest

The directors' conflicts of interest policy sets out procedures to ensure that the Board's management of conflicts of interest and its powers for authorising certain conflicts are operating effectively.

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

Situational conflicts can be authorised by the Board in accordance with the Companies Act 2006 and the company's Articles of Association. The Board considers each request for authorisation on a case-by-case basis and has the power to impose conditions or limitations on any authorisation granted as part of the process. Details of all directors' conflicts of interest are recorded in a register which is maintained by the Chief Governance Officer and Company Secretary and reviewed annually by the Board.

2. Division of responsibilities

The Board has 11 directors comprising the Chairman, two executive directors and eight independent non-executive directors, one of whom is the Senior Independent Director.

Director biographies and details of the Board Committees of which they are members can be found on pages 72 to 75.

Non-executive director independence

The Board considers that the Chairman was independent on appointment and that all current non-executive directors are independent for the purposes of the Code.

Robert Gillespie stepped down from the Board on 15 December 2022, having served a full term of nine years. In order that Robert's resignation could coincide with the December Board meeting, he was on the Board for a total of nine years and 14 days. In that respect alone, Mr Gillespie did not meet the independence criteria set out in the Code. Notwithstanding Mr Gillespie's length of service, the Board has determined that Mr Gillespie continued to be independent in character and judgement, offering a strong contribution to Board discussions and debate until he stepped down on 15 December 2022.

On a similar basis, in February 2023, the Board confirmed that Morten Friis should continue to serve on the Board and be considered as an independent non-executive director until he steps down on 31 July 2023, notwithstanding that he will have served nine years and four months on the Board by that point.

Chairman and Group CEO

The role of Chairman is distinct and separate from that of the Group CEO and there is a clear division of responsibilities, with the Chairman leading the Board and the Group CEO managing the business day to day.

Senior Independent Director

Throughout 2022, Mark Seligman, as Senior Independent Director, acted as a sounding board for the Chairman, and as an intermediary for other directors when necessary. He was also available to shareholders to discuss any concerns they may have had, as appropriate.

Non-executive directors

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

The non-executive directors combine broad business and commercial experience with independent and objective judgment. They provide constructive challenge, strategic guidance, and specialist advice to the executive directors and the executive management team and hold management to account.

The balance between non-executive and executive directors enables the Board to provide clear and effective leadership across NatWest Group's business activities and ensures no one individual or small group of individuals dominates the Board's decision-making.

The Chairman and non-executive directors meet at least once every year without the executive directors present.

Details of the key responsibilities of the Chairman, Group CEO, Senior Independent Director and non-executive directors are available at natwestgroup.com. In 2022 the Chairman and

non-executive directors' role profiles were refreshed and updated to ensure they continue to accurately reflect their role and responsibilities and are in line with best practice.

The performance of the Chairman and non-executive directors is evaluated annually and further details of the process undertaken can be found on page 89.

Chief Governance Officer and Company Secretary

The Chief Governance Officer and Company Secretary works closely with the Chairman to ensure effective and efficient functioning of the Board and appropriate alignment and information flows between the Board and its Committees.

The Chief Governance Officer and Company Secretary is responsible for advising the Board and individual directors on all governance matters, and also facilitates Board induction and directors' professional development.

Executive management

The executive management team supports the Group CEO in managing NatWest Group's businesses. The team reviews, challenges and debates relevant items and supports the Group CEO in forming recommendations to the Board. Matters include strategy, financials, capital, risk and operational issues affecting NatWest Group as well as monitoring the implementation of cultural change and executive succession planning. The executive management team actively promotes NatWest Group's culture, values and purpose. Biographies of the executive management team can be found at natwestgroup.com.

Time commitment and external appointments

It is anticipated that non-executive directors will allocate sufficient time to the company to discharge their responsibilities effectively and will devote such time as is necessary to fulfil their role.

The Code emphasises the importance of ensuring directors have sufficient time to meet their board responsibilities. Prior to appointment, significant commitments require to be disclosed with an indication of the time involved. After appointment, external appointments require prior Board approval, with the reasons for permitting significant appointments explained in Exhibit 15.2 of the Annual Report on Form 20-F. Board papers relating to proposed additional external appointments of directors include details of the individual's full portfolio for review and consideration. They also include a reminder of applicable Code and Capital Requirements Directive provisions, and relevant proxy adviser and investor guidance.

In April 2022 Katie Murray joined the Board of Phoenix Group Holdings plc (Phoenix) as a non-executive director. This appointment, and Katie's subsequent appointment as Chair of the Phoenix Group Audit Committee, were both approved by the Board in advance. In reaching its decisions the Board considered both potential conflicts and time commitment and was satisfied that Ms Murray would be able to continue to meet her commitments to NatWest Group.

At the April 2022 AGM, the resolution to re-elect Frank Dangeard as a director was passed with a lower level of support than expected, particularly from independent shareholders. A proxy adviser had recommended a vote against Mr Dangeard's re-election due to 'over-boarding' under their methodology, although no regulatory limits had been breached. Acknowledging the significant vote against Mr Dangeard's re-election, we explained the situation in our post AGM announcement and re-confirmed the Board's view that Mr Dangeard has sufficient time to undertake his duties with NatWest Group. The Chairman also engaged directly with institutional shareholders, listening and responding to their concerns. Mr Dangeard has since stepped down as Chair of Spear Investments I B.V., where he remains a non-executive director, which will represent a reduction in the number of public company mandates he holds under any voting guidelines where Chair roles are counted as additional commitments.

In November 2022, the Board approved Roisin Donnelly's appointment as a non-executive director of The Sage Group plc, effective February 2023. The Board considered potential conflicts and the time commitment associated with the additional directorship and, noting that Ms Donnelly expected shortly to resign from the board of HomeServe plc, it was satisfied that Ms Donnelly would continue to have sufficient time to continue to meet her responsibilities to NatWest Group. Ms Donnelly stepped down from HomeServe plc in January 2023.

The Board continues to monitor the commitments of the Chairman and directors and is satisfied that they are able to allocate sufficient time to enable them to discharge their duties and responsibilities effectively.

Information

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

Our Board and Committee paper template includes a section for authors to explain how the proposal or update aligns with our purpose and a separate section for them to include an assessment of the relevant stakeholder impacts for the directors to consider. This aligns with the directors' duties under section 172(1) of the Companies Act 2006 and further details of how the directors have complied with their section 172(1) duties can be found on pages 40 to 41 of the Strategic report.

Our directors are mindful that it is not always possible to achieve an outcome which meets the expectations of all stakeholders who may be impacted. For decisions which are particularly challenging or complex, an optional page in our paper template provides directors with further information to support purposeful decision-making. This additional page uses the Blueprint for Better Business framework as a base and is aligned to our broader purpose framework.

Induction and professional development

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

Roisin Donnelly joined the Board on 1 October 2022 and the Chief Governance Officer and Company Secretary worked closely with Ms Donnelly to devise a comprehensive induction programme which was tailored to her needs and flexible to respond to areas of focus which emerged as the programme progressed. Priorities included early engagement with key stakeholders, upskilling on the financial services industry and regulation, and developing an understanding of NatWest Group's structure, strategic priorities and business operations.

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

Directors' training and development is co-ordinated by the Chief Governance Officer and Company Secretary.

Directors have access to a wide range of briefing and training sessions and other professional development opportunities. Internal training relevant to the business of NatWest Group is also provided. Directors undertake the training they consider necessary to assist them in carrying out their duties and responsibilities. The non-executive directors discuss their training and professional development with the Chairman at least annually.

During 2022 our Board training covered supply chain diversity, digital currencies, regulatory updates, the Takeover Code, capital, financial crime, inside information, climate, ring-fencing rules and a cyber risk 'war game'.

In addition, directors broadened their knowledge and understanding of the risks facing NatWest Group by participating in a Board dinner discussion with executive management on principal and emerging risks. A number of directors also accepted an invitation to the full Board to join meetings of the Technology and Innovation Committee which covered areas of broader interest, including a session on data strategy.

3. Composition, succession and evaluation

Composition

The Board is structured to ensure that the directors provide NatWest Group plc with the appropriate combination of skills, experience, knowledge and diversity, as well as independence.

In December 2022 the Group Nominations and Governance Committee reviewed, and the Board approved, an updated version of our Board skills matrix, a summary view of which is set out on page 79.

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

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

The boardroom inclusion policy aims to promote diversity and inclusion in the composition of the Boards of directors of NatWest Group plc, NWH Ltd, NWB Plc and RBS plc and in the nominations and appointments process. This policy reflects NatWest Group's values, its inclusion guidelines and relevant legal or voluntary code requirements.

The policy includes measurable objectives which exist to ensure that the Boards, and any Committees they delegate nominations responsibilities to, follow an inclusive process when making decisions on nominations and appointments. The policy includes targets which aspire to meet those set out in the UK Listing Rules along with the recommendations of the FTSE Women Leaders Review and the Parker Review. The policy also acknowledges NatWest Group's ambition to have gender balance in our global top three levels (CEO-3 and above) by 2030.

Throughout 2022 the Board met the recommendation of the Parker Review with at least one director from an ethnic minority background and it intends to continue to meet that recommendation.

As at 31 December 2022:

- 45% of the Board were female, which exceeded the FTSE Women Leaders Review target of 40% female representation by the end of 2025; and
- with a female Group CEO and Group CFO, we also met the FTSE Women Leaders Review recommendation that companies should have at least one woman in the Chair or Senior Independent Director roles on the Board and/or one woman in the Chief Executive Officer or Finance Director role by the end of 2025.

A copy of the boardroom inclusion policy is available at natwestgroup.com.

Succession

As set out in its terms of reference the Board is responsible for ensuring adequate succession planning for the Board and senior management, so as to maintain an appropriate balance of skills and experience within NatWest Group and on the Board.

In June 2022 the Board received an update on executive talent and succession planning which enabled directors to monitor the internal talent pipeline and provide feedback. This update included analysis of the diversity of the talent pool, with a view towards continuing to improve diversity over the longer term.

In October 2022 the Board held a talent engagement session with potential ExCo successors. This session helped our non-executive directors gain insights into the breadth of the talent pool, getting to know the individuals through a focused discussion on our values and how they are embedding across the bank.

Board succession planning has also been an important area of focus in 2022.

The Group Nominations and Governance Committee supports the Board on Board succession planning, including making recommendations to the Board on Board appointments and Board Committee membership.

In June 2022 (following review and recommendation by the Group Nominations and Governance Committee), the Board approved succession plans for the roles of Senior Independent Director and Committee Chairs, covering orderly transition plans for the short and medium term, and contingency arrangements which could be implemented in case of an emergency. These succession plans are reviewed by the Group Nominations and Governance Committee and approved by the Board at least once a year.

On 24 September 2022, the Board approved Lena Wilson's appointment as Chair of the Group Performance and Remuneration Committee, succeeding Robert Gillespie who had confirmed his intention to resign as a director on 15 December 2022.

On 1 October 2022, Roisin Donnelly was appointed to the Board as an independent non-executive director. And on 16 December 2022, we announced that Stuart Lewis will join the Board as an independent non-executive director on 1 April 2023. Subject to regulatory approval, Mr Lewis will succeed Morten Friis as Chair of the Group Board Risk Committee on 1 August 2023.

On 16 December 2022 we announced that Mr Friis had confirmed his intention to resign as a non-executive director on 31 July 2023, and on 31 January 2023 we announced that Mike Rogers would be stepping down from the Board on 25 April 2023.

Further information on the role of the Group Nominations and Governance Committee and its activities during 2022 can be found in the Committee Chair's report on pages 92 to 93.

Election and re-election of directors

In accordance with the provisions of the Code, all directors will stand for election or re-election by shareholders at the company's AGM, with the exception of Mr Rogers, who has confirmed his intention to resign on 25 April 2023.

In accordance with the UK Listing Rules, the election or re-election of independent directors also requires approval by a majority of independent shareholders.

Evaluation

In accordance with the Code, an evaluation of the performance of the Board, its Committees, the Chairman and individual directors takes place annually. The evaluation is externally facilitated every three years, with internal evaluations in the intervening years.

An internal evaluation was conducted in 2022 by the Chief Governance Officer and Company Secretary, following the externally facilitated evaluation led by Independent Board Evaluation in 2021. Further details on how the 2022 evaluation was conducted and the outcomes and actions arising from that process are set out in this section.

Progress following the 2021 external Board evaluation

A number of actions were progressed during 2022 in response to the findings of the 2021 external Board evaluation.

Theme	2022 progress
Strategy	• A new operating rhythm was introduced for Board engagement and oversight with more frequent strategy sessions during the year focused on key strategic topics for the Board as more fully described on page 80.
Board focus and priorities	• Board objectives for 2022 were approved by the Board in February 2022. • Processes were streamlined to facilitate effective management of Board priorities in a number of ways including refreshing the business CEO review template, integrating climate updates within existing Board papers, issuing certain Committee invitations to all Board members and ensuring an appropriate balance between agenda items for discussion and noting.
Engagement with the business and stakeholders	• Further opportunities for non-executive directors to engage with the business and key stakeholders were identified including Meet the Board sessions, a colleague networking lunch, a full Board session with executive talent, the Colleague Advisory Panel, virtual shareholder events, the AGM, an investor engagement session, engagement with external suppliers, customer visits and customer dinners.
Colleague engagement	• The Board's overall approach to colleague engagement was reviewed, including the role of the Colleague Advisory Panel, broader employee listening and the talent engagement strategy at ExCo. It was concluded that the approach was fit for purpose.

Details of progress made against the actions arising from the 2021 external Committee evaluations can be found in the relevant Committee Reports.

How the 2022 evaluation was conducted	
Objectives and scope	• The Chairman and Chief Governance Officer and Company Secretary agreed on the scope and objectives of the Board and Committee evaluation. • The NatWest Group plc and NWH Sub Group Boards and Committees were confirmed to be in scope of the review. Focus areas included purpose and strategy (oversight and implementation), objectives and priorities, Board composition and succession planning (including skills, diversity and experience), Board culture, risk management, stakeholder engagement, and quality of meetings and papers.
Interviews and reporting	• The Chief Governance Officer and Company Secretary held 1:1 interviews with all of the directors and prepared a draft report summarising the output from the interviews. • The key findings and recommendations for action were discussed with the Chairman in advance of the report being circulated to the Board.
Review and action planning	• The final report was discussed at the December 2022 Board meeting. • The Board agreed an action plan in response to the recommendations set out in the report.

2022 Board evaluation – outcomes and actions

The conclusion of the 2022 Board evaluation was that the Board operated effectively throughout the year and fulfilled its remit as set out in its terms of reference. Directors engaged fully with the evaluation exercise and commented positively in relation to many aspects of the Board's operations.

The evaluation findings noted that overall sentiment was good and there was a real sense of the Board and executive management working well together to drive the business forward. Purpose was strong and was evident in decision-making and the revised approach to strategy had worked well. Setting Board objectives in 2022 was considered helpful in directing focus and there had been good oversight of priorities and outcomes.

Overall, the directors felt the Board's size was about right and succession planning had been handled well. The culture of the Board had continued to develop positively, although the dynamic could be further improved. The balance of responsibilities between the Board and Committees was appropriate, but Committee reporting to the Board could be sharper.

Director feedback on the Board calendar, time commitment and stakeholder visits were all positive. Directors reiterated that agendas should ensure key issues are prioritised and that papers should not be too long. Board training was considered good and directors appreciated the strong support from the corporate governance team.

In December 2022 the Board agreed a detailed action plan in response to the recommendations set out in the internal Board evaluation report, which included the following:

Theme	2023 actions
Purpose and strategy	• Include an annual review of purpose embedding at the Board. • Review format of future strategy sessions to include discussion on longer term trends.
Board focus and priorities	• Set Board objectives for 2023. • Chairman and Chief Governance Officer and Company Secretary to review agendas in 2023 and encourage discipline in Committee Chair reporting and paper lengths.
Engagement with business and stakeholders	• Review mechanisms for Board engagement with the executive talent pipeline and ensure all CEO-1/2 successors have some form of exposure to the Board during the year. • Explore opportunities for the Board to meet in/visit regional hubs.

Implementation of the 2022 Board evaluation action plan will be overseen by the Group Nominations and Governance Committee during 2023.

2022 Board Committee evaluations – outcomes and actions

Details of the outcomes of the 2022 Board Committee evaluations can be found in the relevant Committee Chair reports. Progress against these actions will be tracked at Committee level during 2023.

2022 Individual director and Chairman effectiveness reviews

The Chairman met each director individually to discuss their own performance and continuing professional development and establish whether each director continues to contribute effectively to the company's long-term sustainable success. The Chairman also shared peer feedback provided by directors during the evaluation. Separately, the Senior Independent Director, together with the Senior Independent Director of the ring-fenced bank, sought feedback on the Chairman's performance from the non-executive directors, executive directors and other key internal and external stakeholders and discussed it with the Chairman. This included peer feedback provided by directors during the evaluation.

4. Audit, risk & internal control

Information on how the company has applied the Principles and complied with the Provisions set out in this section of the Code can be found throughout the Annual Report on Form 20-F. The following sections are of particular relevance:

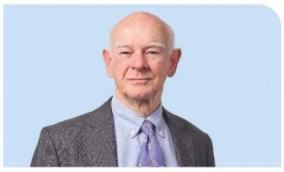
- the Group Audit Committee report (page 94) which describes the completion of an external audit tender and sets out the process undertaken to evaluate the effectiveness of both the Internal Audit function and the external auditors and the principal findings thereof. It also explains the approach taken to ensuring the integrity of financial and narrative statements and confirms that it supports the Board in the assessment of NatWest Group's disclosures to be fair, balanced and understandable;
- the Compliance report (page 154), which explains the internal control framework in place and how the Board monitors and reviews the company's risk management and internal control systems; and
- the Group Board Risk Committee report (page 103) which explains how the Board oversees the principal and emerging risks facing NatWest Group and how management addresses these.

The Board regularly assesses the company's emerging and principal risks in a variety of ways including through consideration of the risk management report. Details of the company's principal risks, procedures in place to identify Top and Emerging Threats, and how these are being managed or mitigated, can be found on pages 64 to 67 (Risk overview) and pages 162 to 269 (Risk and Capital Management).

5. Remuneration

The Directors' remuneration report on pages 124 to 153 provides information on the activities of the Group Performance and Remuneration Committee, the decisions taken on remuneration during the year and why the Committee believes these are the right outcomes in the circumstances. The report also details how the remuneration policy for executive directors supports the delivery of the company's strategic goals and purpose, with significant delivery in shares to provide long-term alignment with shareholders. Information is also included on wider workforce remuneration including our approach to providing fair pay.

Report of the Group Nominations and Governance Committee



Letter from Howard Davies,

Chair of the Group Nominations and Governance Committee

Dear Shareholder,

As Chairman of the Board and Chair of the Group Nominations and Governance Committee, I am pleased to present our report on the Committee's activity during 2022.

Role and responsibilities

The Committee is responsible for reviewing the structure, size and composition of the Board, and membership and chairmanship of Board Committees and recommends appointments to the Board. In addition, the Committee monitors NatWest Group's governance arrangements to ensure that the best corporate governance standards and practices are upheld and considers developments relating to banking reform and analogous issues affecting NatWest Group. The Committee makes recommendations to the Board in respect of any consequential amendments to NatWest Group's operating model.

The terms of reference of the Committee are reviewed annually, approved by the Board and are available at natwestgroup.com.

Principal activity during 2022

The Committee supports the Chair in keeping the composition of the Board and its Committees under regular review. The Committee reviews and recommends to the Board a skills matrix which is used to map the skills and experience of individual directors and ensure that the Board's collective skill-set remains appropriately balanced and aligned to current and future strategic priorities. The matrix is also used to identify any gaps and opportunities to enhance the collective balance of skills through additional recruitment to the Board.

Following the Committee's review of the skills matrix and noting the tenure of a number of non-executive directors, the Committee supported implementation of the Board's succession plans by overseeing the search for two new non-executive directors during 2022.

A subset of the Board's membership selected Audeliss to support a comprehensive candidate search with diversity and inclusion considerations at the forefront of the search criteria. The Committee held a number of discussions on potential candidates as the search progressed, assessing the credentials of each candidate against the qualities and capabilities set out in the role specification agreed by the Committee. Following a formal, rigorous and transparent process the Committee recommended two candidates to the Board for appointment.

On 1 October 2022 Roisin Donnelly was appointed to the Board as a non-executive director. On 16 December 2022 NatWest Group announced that Morten Friis intends to stand down from the Board with effect from the close of business on 31 July 2023, shortly after reaching the ninth anniversary of his appointment. At the same time, it was announced that Stuart Lewis would join the Board as a non-executive director and member of the Group Board Risk Committee on 1 April 2023. Subject to regulatory approval, Stuart will be appointed as Chair of the Group Board Risk Committee on 1 August 2023. Both Roisin and Stuart bring extensive skills and experience to their roles and the Board looks forward to benefitting from their valuable and important contributions.

During 2022 the Committee also reviewed the contribution of a number of serving Board members under the board appointment policy which sees non-executive directors appointed for an initial three-year term, subject to annual re-election at the AGM. Following assessment by the Committee, they may then be appointed for a further three-year term. Non-executive directors may continue to serve beyond six years, subject to a maximum tenure of nine years. The tenures of the Chairman and non-executive directors are set out on page 79.

In addition to reviewing the structure, size and composition of the NatWest Group plc Board, the Committee has also continued to oversee work aimed at further enhancing NatWest Group's subsidiary governance framework. A number of our material regulated subsidiaries made appointments to their boards during 2022, which the Committee has overseen. Spencer Stuart and Green Park have both been engaged during the year to support NatWest Group's subsidiary board search activity. The firms are members of the retained executive search panel of suppliers (managed by NatWest Executive Search). Spencer Stuart also provide leadership advisory and senior executive search and assessment services to the People & Transformation function within NatWest Group.

During the year the Committee continued to monitor NatWest Group's governance arrangements to ensure that they remain appropriate by reference to best practices in corporate governance (having regard to relevant legislation, guidelines, industry practice and developments affecting NatWest Group in the markets where it operates).

During 2022 the Committee considered a number of external policy developments and the impacts on NatWest Group's corporate governance framework, including changes to the Listing Rules and Disclosure and Transparency Rules introduced following the FCA's review of diversity and inclusion on company boards and executive committees.

Membership and meetings

Throughout the majority of 2022 the Committee comprised the Chairman of the Board and four independent non-executive directors. Lena Wilson joined the Committee on 24 September 2022, when she succeeded Robert Gillespie as Chair of the Group Performance and Remuneration Committee. Robert remained a member of the Committee until he stood down from the Board on 15 December 2022. Graham Beale also observes meetings of the Committee in his capacity as Senior Independent Director of NWH Ltd and member of the NWH Ltd Nominations Committee. The Committee holds a minimum of four meetings per year and meets on an ad hoc basis as required. In 2022, there were four meetings. Individual attendance by directors at these meetings is shown in the table on page 77.

Performance evaluation

The 2022 review of the effectiveness of the Board and its senior Committees was conducted internally in 2022 by the Chief Governance Officer and Company Secretary. The Committee has considered and discussed the outcomes of the evaluation and accepts the findings, more information on which can be found on page 90. Overall, the review concluded that the Committee's responsibilities had been discharged effectively with no material recommendations being identified for action. The Committee will continue to ensure that the full Board is appropriately sighted on the work of the Committee, including Board succession planning that will continue to be a key priority for the Committee during 2023.

The outcomes of the evaluation have been reported to the Board and the Committee will track progress during the year.

Boardroom inclusion policy

As noted on pages 79 and 88, the Board operates a boardroom inclusion policy which reflects NatWest Group's values, its inclusion guidelines and relevant legal or voluntary code requirements. The policy currently applies to the most senior NatWest Group boards: NatWest Group plc, NWH Ltd, NWB Plc and RBS plc. A copy of the boardroom inclusion policy is available at natwestgroup.com.

Objectives and targets

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

Page 154 confirms NatWest Group's approach to Provision 17 of the Code which sees oversight of succession plans for senior management positions and the development of a diverse pipeline for succession reserved as a matter for the full Board. Pages 48 to 49 contain more information on how NatWest Group is creating a diverse, equitable and inclusive workplace, including (in relation to Provision 23 of the Code) the gender balance of senior management and their direct reports.

Monitoring and reporting

Throughout 2022 the Board met the recommendation of the Parker Review with at least one member of the Board being of an ethnic minority background and it intends to continue to meet that recommendation.

At the end of 2022 the Board exceeded the FTSE Women Leaders Review target of 40% female Board representation by the end of 2025, with 45% of the Board being female.

Diversity and inclusion progress, including information about the appointment process, will continue to be reported in the Group Nominations and Governance Committee's report in Exhibit 15.2 of the NatWest Group plc Annual Report on Form 20-F.

The balance of skills, experience, independence, knowledge and diversity on the Board, and how the Board operates together as a unit, is reviewed annually as part of the Board evaluation. Where appropriate, findings from the evaluation will be considered in the search, nomination and appointment process.

Howard Davies
Chair of the Group Nominations and Governance Committee
16 February 2023

Report of the Group Audit Committee

"Our objective was to run a competitive audit tender through a process that is fair and transparent for those firms participating with minimal disruption to NWG during this period."



Letter from Patrick Flynn,

Chair of the Group Audit Committee

Dear Shareholder,

I am pleased to share with you details of how the Group Audit Committee (The Committee or GAC) discharged its responsibilities and its key areas of activity in 2022. It has been another busy year and I would like to thank my fellow Committee members for their contributions, in particular Robert Gillespie who stood down from the Committee at the end of the year. The Committee also appreciated the views of Graham Beale and Ian Cormack, who are non-executive directors and Audit Committee members of NatWest Holdings and attend GAC meetings in an observational capacity.

The Committee's primary purpose is to oversee and challenge management's approach to the preparation of financial results and relevant non-financial disclosures. This includes considering existing and new accounting policies, scrutinising standards of internal control and their efficacy and reviewing the disclosures each quarter prior to release. More detail on the remit of the Committee can be found in its terms of reference which are reviewed annually and are available at natwestgroup.com.

Interrogating the quarterly releases of financial and relevant non-financial information continued to be a priority for the GAC in 2022. This included consideration of relevant reports from management on the judgements applied during the preparation of the information and legal and regulatory developments.

Consideration was also given to management's assessment of the internal controls over financial reporting and how those controls might be developed and also applied to other areas of NatWest Group's activities. The Committee also received reports from the internal audit function on the internal control environment and the external auditors on internal controls over financial reporting and key accounting and judgemental matters.

As the economic recovery following the COVID-19 pandemic continued during 2022, it was evident that new macroeconomic challenges were emerging, including the rising cost of living and supply chain issues. As such the Committee agreed with management that post model adjustments to expected credit losses would be required throughout the year although the composition evolved during that time.

A major focus of the Committee and management in 2022 was the tender for the external audit. Detailed consideration was given to the timing of this process, and it was determined appropriate to accelerate it to ensure a competitive process and provide management with clarity for potential consultancy engagements. Following consideration of the responses received, and presentations from the responding firms to management and to the Committee, the appointment of PwC as auditors of NatWest Group from 2026 was recommended to the Board. Further details can be found on page 95. The Committee has been satisfied with the performance of the current auditors, EY, throughout the firm's tenure.

I have continued to fulfil the role of whistleblowers' champion for NatWest Group, receiving regular updates on the efficacy of the whistleblowing framework, themes in reports made by colleagues via the systems and monitoring the outcomes of the most pertinent cases. The Committee continued to hold responsibility for oversight of the independence, autonomy and effectiveness of NatWest Group's whistleblowing policies and procedures. It is pleasing that colleague awareness of how to raise concerns remained high in 2022. A refreshed communications campaign during the year linked to NatWest Group's new values and purpose further helped to embed a culture where colleagues feel able to raise any concerns via the whistleblowing framework.

Membership

Full biographical details of the members of the Committee during 2022 are set out on pages 72 to 75. The members are all independent non-executive directors who also sit on other Board committees in addition to the GAC (as set out in their biographies). This common membership helps facilitate effective governance across all finance, risk and remuneration matters and ensures that agendas are aligned, and duplication of responsibilities is avoided.

Members of the GAC are selected with a view to the expertise and experience of the Committee as a whole and with proper regard to the key issues and challenges facing NatWest Group. As NatWest Group plc is a listed company on the London and New York stock exchanges it has certain obligations as to the expertise and qualifications of the Group Audit Committee. The Board is satisfied that all GAC members have recent and relevant financial experience and are independent as defined in the SEC rules under the US Securities Exchange Act of 1934 (the 'Exchange Act') and related guidance. The Board has further determined that Patrick Flynn, Mark Seligman and, during his tenure as a member of the Committee, Robert Gillespie are all 'financial experts' for the purposes of compliance with the Exchange Act Rules and the requirements of the New York Stock Exchange, and that they have competence in accounting and/or auditing as required under the Disclosure Guidance and Transparency Rules.

Meetings and visits

Five scheduled meetings of the Committee were held in 2022, four of which took place immediately prior to the release of the financial results each quarter. One ad hoc meeting was also held, to consider management's preliminary assessment of half-year out-turn on expected credit losses at H1 2022. During the year all members attended the meetings, the majority of which were held in person. All meetings were also attended, in an observational capacity, by the two non-executive directors of NatWest Holdings who are members of that entity's Audit Committee.

In conjunction with the Group and NWH Board Risk Committee (BRC) and the NWH Audit Committee, the GAC undertook its annual programme of visits to control functions. Constructive and insightful discussions were held with members of management from the Risk, Internal Audit and Finance teams.

Performance evaluations

In 2022 the annual review of the effectiveness of the Board and its senior Committees, including the GAC, was conducted internally by the Chief Governance Officer and Company Secretary. It was determined that the GAC had continued to operate effectively during 2022, meeting its statutory duties. The outcomes of the evaluation were considered by the Committee and subsequently reported to the Board. The key area for focus related to improved discipline on the papers presented to the Committee. The GAC will monitor progress during 2023. The Committee is satisfied it fulfilled its terms of reference throughout the year.

The Committee continued to monitor the performance of the external auditor and the Internal Audit function in 2022. Formal assessments were undertaken at the end of the year via an internal process and the Committee reviewed summaries of the feedback provided by relevant stakeholders. Progress made to address the recommendations of the previous year's evaluations was welcomed.

Patrick Flynn
Chair of the Group Audit Committee
16 February 2023

External audit tender

Our objective was to run a competitive audit tender through a process that is fair and transparent for those firms participating with minimal disruption to NWG during this period.

- **April 2022** – discussed the benefits and disadvantages of accelerating the timescales for the external audit tender, which would be required to be undertaken by 2024 at the latest. Further information was requested on the potential participants, the impact on existing and planned consultancy work, and the proposed selection criteria used in a tender.
- **June 2022** – it was agreed that the audit tender process should be accelerated to ensure the best availability of firms able to respond. The market was informed of the decision to commence the process, in line with regulatory requirements.
- **June 2022** – the process commenced with firms invited to participate in the tender; three statements of intent were received from firms with one firm unable to provide a team which would meet NatWest Group's requirements.
- **July/August 2022** – management supported the supplier evaluation, capability and independence assessments, interviews held with key members of management, and deep dives into specific areas of capability.
- **Mid-September 2022** – management panel sessions held.
- **End of September 2022** – final presentations by firms to GAC members. The Committee then deliberated on its recommendation to the Board
- **October 2022** – Key factors in assessing firms included: the understanding of NatWest Group; the quality of the engagement team; the capability of the firm, with a focus on data and digitisation capabilities; the quality of the audit approach; the availability to the engagement team of suitable global resources to meet NatWest Group's requirements; independence; and value add. Having considered the scoring criteria, key factors, input and observations from the Committee and from the presentations themselves, the Committee recommended to the Board that PwC be appointed as NatWest Group's external auditor for the financial period ending 31 December 2026, subject to shareholder approval.

Financial and non-financial reporting

The GAC considered a number of accounting judgements and reporting issues in the preparation of NatWest Group's financial results throughout 2022. The Committee reviewed the quarterly, interim and full year results announcements, the annual reporting suite of documents and other principal financial and non-financial releases for recommendation to the Board for approval. This included the disclosures required by the TCFD and the ESG Disclosures Report. Consideration was given to the controls surrounding the preparation of these releases.

Matter	Role of Committee and context of discussion	How the Committee addressed the matter
Expected credit losses	To review and challenge management's judgements in relation to credit impairments and the underlying assumptions, methodologies and models applied, and any post-model adjustments required. To also consider the impact of macro-economic risks on the credit environment	The GAC focused on the key assumptions, methodologies and post-model adjustments applied to provisions under IFRS 9. While economic uncertainty persisted in 2022, the causes pivoted from the post-pandemic recovery to rising inflation and cost of living. As the macro-economic environment developed during the year it was clear that it would not be possible to adopt a net release of IFRS 9 provisions in the year. The provisions relating to the COVID-19 pandemic were replaced by those of a similar quantum for economic uncertainty. This was considered to be the most appropriate course of action given the uncertainty, and an environment of rising interest rates not experienced in recent times. Industry benchmarking data continued to be helpful to the Committee and informed its considerations. The Committee recognises that post-model adjustments should be limited to considerations beyond model capability and so sought from management confirmation of the criteria which would need to be satisfied to enable their release. In addition, the circumstances in which the underlying scenarios used to model expected credit loss provisions would be revised to reflect significant economic uncertainty were discussed in October 2022 with a full refresh undertaken in advance of the 2022 year-end process. The Committee will continue to scrutinise the application of post-model adjustments in 2023.
Treatment of goodwill	To consider the treatment of goodwill throughout the year and ensure the carrying value was appropriate and suitable disclosures were made.	The Committee supported management's view that it was not necessary to undertake an out of cycle reassessment of goodwill during 2022. Following discussion and challenge, the Committee was satisfied that goodwill remained recoverable throughout the year, and that appropriate disclosures were included in the financial releases. Goodwill was retired as a significant accounting judgement at the end of 2022 as a result of improved projections which result in an impairment being considered unlikely.
Valuation methodologies	To consider valuation methodologies, assumptions and judgements made by management.	The GAC considered valuation methodologies and assumptions for financial instruments carried at fair value and scrutinised judgements made by management on a quarterly basis throughout 2022.

Matter	Role of Committee and context of discussion	How the Committee addressed the matter
Provisions and disclosures	To consider the level of provisions for regulatory, litigation and conduct issues throughout the year.	The Committee reviewed the levels of provisions during the year for regulatory, litigation and conduct matters, and was satisfied these were appropriate. Three new provisions were taken during the year all relating to conduct matters, one in relation to the mortgage repayments by UBIDAC customers, one in relation to issues in respect of orphaned wills and another for the remediation of historic lifetime mortgage products.
Viability statement and the going concern basis of accounting	To review NatWest Group's going concern and viability statements.	The GAC considered evidence of NatWest Group's capital, liquidity and funding position and considered the process to support the assessment of principal risks. The GAC reviewed the company's prospects in light of its current position, the identified principal, and emerging risks (including climate risk) and the ongoing macro-economic developments such as supply chain challenges and rising inflation. FRC guidance and reviews of peer disclosures were considered as part of the preparation of the viability statement for NatWest Group. The Committee recommended both the going concern assessment and viability statement to the Board. (Refer to the Report of the directors for further information).
Fair, balanced and understandable	To oversee the review process which supports the Committee and Board in concluding that the disclosures in the Annual Report on Form 20-F and other elements of the year-end reporting suite of documents, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position and performance, business model and strategy.	The Committee oversaw the review process for the year-end disclosures which included: central coordination and oversight of the Annual Report on Form 20-F and other disclosures led by the Finance function; review of the documents by the Executive Disclosure Committee prior to consideration by the GAC; and a management certification process of the year-end reporting suite. The Committee considered whether the annual, interim and quarterly disclosures met the UK Corporate Governance Code requirements to be 'fair, balanced and understandable'. It concluded each time that the releases satisfied the necessary criteria. The external auditor also considered the fair, balanced and understandable statement as part of the year-end processes and supported NatWest Group's position.
Climate-related Disclosures Report and ESG Disclosures Report	To review the principal non-financial disclosures made by NatWest Group and to ensure appropriate controls are in place to support the preparation of the information. These disclosures include the annual Climate-related Disclosures Report and the ESG Disclosures Report. In 2022 the Committee also reviewed the initial iteration of our Climate transition plan disclosure.	The Committee remained focused on the controls which support the non-financial disclosures to ensure that they remained appropriate and robust. The GAC noted that the controls were aligned with the controls in place for financial disclosures. The GAC discussed and provided feedback on both the Climate related disclosures report, which incorporated climate transition plan information, and the ESG Disclosures Report for 2022. A significant area of discussion related to NatWest Group's dependency on external factors in order to achieve its Climate ambition and how this aligned to best practice disclosure.

Systems of internal control

Systems of internal control relating to financial management, reporting and accounting issues is a key area of focus for the Committee. In 2022 it received reports throughout the year on the topic and evaluated the effectiveness of NatWest Group's internal control systems, including any significant failings or weaknesses.

Matter	Role of Committee and context of discussion	How the Committee addressed the matter
Sarbanes-Oxley Act of 2002	To consider NatWest Group's compliance with the requirements of section 404 of the Sarbanes-Oxley Act of 2002.	The Committee received interim updates on the status of the bank's internal controls over financial reporting throughout 2022 enabling it to monitor progress and support management's conclusion at the year end. The Committee continues to receive updates from management on control deficiencies that arise during the year, including those around expected credit losses and value in use calculations that remain open at the year-end.The Committee monitored the plans and transition to more automated preventative key controls. The Committee also reviewed the process undertaken to support the Group CEO and Group CFO in providing the certifications required under sections 302, 404 and 906 of the Sarbanes-Oxley Act of 2002.
Regulatory and financial returns	To review the controls and procedures established by management of NatWest Group for compliance with regulatory and financial reporting requirements.	As part of management's ongoing work to strengthen the financial reporting control environment in 2022, the Committee received updates at each scheduled meeting as to the progress achieved to implement the findings of the industry-wide skilled person's review of regulatory returns. It encouraged management to ensure delivery remained in line with the planned timetable and was pleased with the positive progress during the year. The Committee received regular updates on the 2021 event affecting two securitisation structures which was identified during 2022. A particular focus of the Committee's discussions was on the review of the end-to-end framework and the work undertaken to strengthen associated controls.
Control Environment Certification	To consider the control environment ratings of the businesses, functions and material subsidiaries and management's actions to ensure that the control environment is maintained or strengthened.	The Committee received bi-annual reports on the Control Environment Certification, which were supplemented by the views of the second and third lines of defence. The Committee was pleased to note that the overall Control Environment strengthened during 2022 as the Financial Crime Return to Appetite Plan delivered against key milestones.

Matter	Role of Committee and context of discussion	How the Committee addressed the matter
Early event escalation	To monitor control incidents captured by the internal event escalation process.	The Committee received bi-annual updates on the volumes and nature of the most significant control incidents escalated via the internal early event escalation process and any common themes. The early event escalation process was introduced at the start of 2022, replacing the previous Group Notifiable Event Process (GNEP). Simultaneously the impact classification matrix was revised in line with current risk appetite. The reliance on manual processes and controls was a significant cause of events in 2022, which the Committee noted with concern. The work to introduce greater automation into the bank's key processes is ongoing and the Committee encouraged this to be completed promptly. It was noted that the creation of the payments Centre of Excellence and the appointment of a senior executive to lead work would improve controls in this area. All Board directors were alerted to the most significant events throughout the year.
Whistleblowing	To monitor the effectiveness of the bank's whistleblowing policies and procedures. The Committee Chair is also the whistleblowers' champion for NatWest Group.	The GAC monitored the effectiveness of the bank's whistleblowing process and received updates on the volume of whistleblowing reports and any common themes. The Committee noted the output of Internal Audit's annual review of the whistleblowing process, which had focused on controls over the management of whistleblower detriment in the Speak Up framework, and the adequacy of detriment training provided to colleagues. The findings were broadly positive with certain areas identified for enhancement which will be progressed by management, with the Committee's support. The GAC Chair acts as NatWest Group's Whistleblowers' Champion, in line with PRA and FCA regulations, and meets regularly with the whistleblowing team. There is appropriate escalation of matters to the Board and dissemination of information to the principal subsidiaries to ensure a coordinated approach across the bank.
Legal and regulatory reports	To note material legal investigations (current and emerging) and any impacts on financial reporting; and to monitor the bank's relationship with relevant regulatory bodies including the FCA and PRA.	The Committee received quarterly reports detailing new and existing major investigations and litigation cases. The Committee considered provision levels and the impact on each quarterly financial results disclosure and was satisfied in both respects. The Committee also received updates on ongoing regulatory investigations, current and future areas of regulatory focus and the nature of the relationships with the primary regulators.
Other standards of control	In addition, the Committee receives regular updates on matters pertinent to NatWest Group's standards of internal control.	The Committee received an update on the bank's tax position and discussed matters including tax provisioning levels, significant provided and unprovided tax risks and deferred tax assets. The GAC reviewed the disclosure on internal control matters in conjunction with the related guidance from the Financial Reporting Council.

Internal Audit

The GAC is responsible for overseeing the Internal Audit function, monitoring its effectiveness and independence.

Matter	Role of Committee and context of discussion	How the Committee addressed the matter
Quarterly opinions	To consider periodic opinion reports prepared by Internal Audit on the overall effectiveness of the governance, risk management and internal control framework, current issues and the adequacy of remediation activity.	The Committee received quarterly opinion reports from Internal Audit, setting out the function's view of the overall effectiveness of NatWest Group's governance, risk management and internal control framework, current issues and the adequacy of remediation activity. Internal Audit also outlined material and emerging concerns identified through their audit work. Internal Audit reported a continued steady strengthening of the bank's control environment over the course of the year. The function continued to assess and report on the implementation of significant programmes, such as the Financial Crime remediation work, which was welcomed by the Committee. The increased use of quantitative metrics to support Internal Audit's conclusions was also welcomed by the Committee. The Committee monitored the development of audit report ratings and timeliness of issue resolution. The Committee considered the IA opinion of the strength of the control environment.
Annual plan and budget	To approve Internal Audit's annual plan and budget prior to the start of each year as well as any significant changes required during the year.	The Committee considered and approved Internal Audit's 2022 plan and budget at the end of 2021. The Committee supported the planned focus of work on the most high-risk areas for the bank, and welcomed the flexible approach adopted by the Internal Audit management in the event of new or emerging risks or requests for audit work during the year. The 2022 budget was consistent with the prior year, reflecting the delivery of efficiencies in the function. In December 2022, the Committee approved Internal Audit's 2023 plan and budget.
Internal Audit Charter and independence	To approve the Internal Audit Charter each year and review the independence of the Chief Audit Executive (CAE) and function as a whole.	The GAC reviewed and approved the Internal Audit Charter which was consistent with prior years. The Committee noted the Independence Statement and confirmed the independence of Internal Audit.
Performance/ evaluation	To monitor and review, at least annually, the effectiveness of Internal Audit.	In 2022 the CAE continued to report to the GAC Chair with a secondary reporting line for administrative purposes to the Group CEO. This is consistent with prior practice and industry guidance. The GAC assessed the annual performance (including risk performance) of the function and CAE. The 2022 evaluation of the Internal Audit function was carried out internally, and it is expected an external audit quality assessment will be performed in early 2023. For the purposes of the 2022 evaluation, stakeholders across the bank, including the GAC members, attendees and the external auditors were invited to provide feedback, identifying areas of particular strength and those for enhancement. The overall findings were positive, and the Internal Audit function was found to be operating effectively with opportunities to improve bench-strength and to focus activity on emerging areas of focus for NatWest Group. Progress will be overseen by the GAC in 2023.
Visit	To undertake an annual deep dive session with members of the Internal Audit leadership team.	Together with the BRC, the GAC participated in a successful deep dive session with Internal Audit's management team. A variety of issues impacting the function were discussed, including: succession planning and bench-strength; talent and mobility; functional priorities; and the impacts of increased automation and use of technology in audits.

External audit

The GAC has responsibility for monitoring the independence and objectivity of the external auditor, the effectiveness of the audit process and for reviewing NatWest Group's financial relationship with the external auditor and fixing its remuneration. Ernst & Young LLP (EY) has been NatWest Group's external auditor since 2016, following a tender process carried out in 2014. In October 2022, the Committee recommended that PwC be appointed as NatWest Group's auditor from 2026.

Matter	Role of Committee and context of discussion	How the Committee addressed the matter
External audit reports	To review reports prepared by the external auditor in relation to NatWest Group's financial results and control environment.	The Committee received quarterly reports on the review-related work and conclusions of the external auditor. The reports included EY's view of the judgements made by management, compliance with international financial reporting standards and the external auditor's observations and assessment of effectiveness of internal controls over financial reporting.
Audit plan and fees	To consider the scope and planning of the external auditor in relation to the audit of NatWest Group. It is also authorised by the shareholders to fix the remuneration of the external auditor.	The GAC reviewed EY's 2022 plan. It welcomed the external auditor's focus on innovation, as well as the intention to utilise a data-leveraged approach to the audit. In line with the authority granted to the Committee by shareholders at the 2022 Annual General Meeting (AGM) to fix the remuneration of the external auditor, the GAC approved the audit fees for the year including the fee for the 2022 interim results. The Committee received confirmation from the external auditor that the fees were appropriate to enable delivery of the required procedures to a high quality. Management also committed to continuing to support the external auditor in minimising costs associated with the audit.
Annual evaluation	To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration all relevant professional and regulatory requirements.	The evaluation of the external auditor's performance in 2022 was undertaken to assess the independence and objectivity of the external auditor and the effectiveness of the audit process. The GAC members, attendees, finance directors of customer businesses and functions, and key members of the Finance team were consulted as part of the evaluation. Stakeholders were invited to assess the external auditor's independence, engagement, provision of robust challenge, bench-strength and reporting. The evaluation concluded that the external auditor was operating effectively and with objectivity. Key strengths included fresh perspectives provided following partner rotation and the technical strength of the audit. Improvement areas included junior staff capabilities, continued enhancement of written reporting and providing additional external benchmarking and market insight.
Audit partner	To oversee the lead audit partner and resolution of any points of disagreement with management.	Micha Missakian has been EY's lead audit partner for NatWest Group since February 2021. He attended all meetings of the Committee in 2022 and met in private session with the Committee members twice during the year. This provided the external auditor an opportunity to raise any points of disagreement with management. No such points were raised by the external auditor in 2022.
Additional reports prepared by the external auditor	To review reports prepared by the external auditor in relation to NatWest Group.	During 2022 the Committee considered the results of the external auditor's assurance procedures on compliance with the FCA's Client Asset Rules for NatWest Group's regulated legal entities for the year ended 31 December 2021 and received the outcome of EY's written auditor report to the PRA under supervisory statement SS1/16 for the year ended 31 December 2022. EY also presented the findings of their audit of the Climate-related Disclosures Report and ESG Disclosures Report to the GAC.

Matter	Role of Committee and context of discussion	How the Committee addressed the matter
Non-audit services	To review and approve, at least annually, NatWest Group's policy in relation to the engagement of the external auditors to perform audit and non-audit services (the policy).	All audit and non-audit services are approved by, or on behalf of, the Committee to safeguard the external auditor's independence and objectivity. The GAC reviewed and approved NatWest Group's non-audit services policy in 2022. Under the policy, all audit-related services and permitted non-audit service engagements are approved by the GAC with updates presented to each scheduled meeting. Where the fee for a non-audit service engagement is expected to exceed £100,000, a competitive tender process must be held; where the fee is anticipated to be £250,000 or more approval of all GAC members is required. For fees under £250,000, work can be approved on an interim basis by the GAC Chair, subject to subsequent ratification by the next scheduled GAC meeting. The policy permits the external auditor to undertake engagements which are required by law or regulation or which relate to the provision of comfort letters in respect of debt issuance by the NatWest Group, provided prior approvals are in place in accordance with the policy. The policy also allows NatWest Group to receive services from EY which result from a customer's banking relationship, provided prior approvals are in place in accordance with the policy. All such approvals are subsequently reported to the GAC. During 2022, the Committee did not approve any significant non-audit engagements (where the fees exceeded £100,000) to be undertaken by the external auditor. The audit to non-audit fee ratio for 2022 was 15%. Further details of the non-audit services policy can be found at natwestgroup.com. Information on fees paid in respect of audit and non-audit services carried out by the external auditor can be found in Note 6 to the consolidated accounts.

*Reviewed by BRC in-line with the Committee's role to review reports and regulatory submissions on behalf of the Board and recommend them for approval.

Report of the Group Board Risk Committee



Letter from Morten Friis,

Chair of the Group Board Risk Committee

Dear Shareholder,

I am pleased to present my third and final report as Chair of the Board Risk Committee (the Committee or BRC).

This report describes how the BRC has fulfilled its role overseeing and advising the Board in relation to current and potential future risk exposures and risk profile; and in overseeing the effectiveness of risk management frameworks. In carrying out this important role, the Committee helps to ensure that NatWest Group is purpose-led in its decision-making, building long-term value in the business. More detail on the remit of the Committee can also be found in its terms of reference which are reviewed annually and available at natwestgroup.com.

During 2022, the Committee ensured its time was prioritised to focus on oversight of NatWest Group's principal and emerging risks. Financial crime has remained a key area of focus and the Committee has been pleased to see significant progress towards a return to appetite. Other areas of focus have included model risk remediation activity; oversight of implementation of risk management framework improvements, particularly the Risk and Control Self-Assessment (RCSA) roll-out; oversight of the effectiveness review of the Risk function, which included the evolution of the risk management strategy; and a wide range of operational risk matters. Risk management across NatWest Group has continued to be an area of regulatory focus and BRC has played a key role in overseeing and challenging progress in this regard. Emerging priorities during the year included Consumer Duty requirements, data, cloud hosting risk and payments technology and architecture. Additionally with the volatile geopolitical and economic environment, BRC devoted significant time to the impact of the external economic environment on NatWest Group's risk profile. It is expected that these will continue to be areas of focus in 2023 as NatWest Group drives towards return to appetite in a number of areas, implements changes to meet regulatory expectations, and continues to respond to the external economic environment and cost of living pressures.

"BRC has helped to ensure that NatWest Group is purpose-led in its decision-making through its oversight of risk management frameworks and in overseeing and advising the Board on both current and potential future risk exposures."

Further information on key topics considered during the year and areas of focus and challenge by the Committee is provided on the following pages.

I would like to thank my fellow Committee members for their continued commitment, support and challenge during what has been an unpredictable and eventful year, and throughout my tenure as BRC Chair.

Morten Friis
Chair of the Group Board Risk Committee
16 February 2023

Membership

BRC comprises four independent non-executive directors. The details of the members and their skills and experience are set out on pages 72 to 75. Robert Gillespie stepped down as a member of the Committee when he stepped down from the Board on 15 December 2022. I would like to thank Robert for his long-standing commitment and contribution to the Committee.

Patrick Flynn is chair of the Group Audit Committee of which I am also a member. Lena Wilson is chair of the Group Performance and Remuneration Committee (RemCo). This common membership helps to ensure effective governance across the committees.

Regular attendees at BRC meetings include: the Group Chairman, Group CEO, Group CFO, Group CRO, Group Chief Legal Officer and General Counsel, Group Chief Audit Executive, and the external auditor. External advice is sought by the Committee where appropriate.

Francesca Barnes joined NWH Ltd's BRC in September 2022. Francesca, Graham Beale and Ian Cormack attended Committee meetings as observers in their capacity as members of NWH Ltd's BRC. Meetings of the Group and NWH Ltd's BRCs share much of a common agenda and are generally run in parallel.

Meetings and visits

There were eight scheduled meetings of the Committee held in 2022. Six of the eight meetings were held in person, with the remaining two meetings held virtually during the year. Details of meeting attendance can be found on page 77.

Outside formal meetings, the Committee met with the Risk Leadership Team and held additional sessions to consider improvements to the risk management report and the development of the risk management strategy. Dinners were arranged to discuss the Retail strategy from a risk perspective and to consider the operation of the Committee. Members of the Group and the NWH Ltd BRCs also undertook a programme of visits to the Risk, Internal Audit and Finance functions, in conjunction with members of the Group and the NWH Ltd Audit Committees.

Performance Evaluation

Throughout the year the Committee acted in accordance with its terms of reference. The annual review of the effectiveness of the Board and its senior Committees, including BRC, was conducted internally in 2022. The PRA also conducted a review of the BRC.

The Committee held a dedicated session to discuss its performance. The session was structured around a number of themes: focus and priorities; reporting and operating rhythm; committee effectiveness and culture and dynamics. The Committee agreed that it was operating effectively and believed it discussed all principal and emerging risks and challenged management appropriately. The Committee suggested that there needed to be continued focus on prioritising agendas to try to reduce the volume of papers and to allow sufficient time for discussion. Continued improvement in the quality of papers and timeliness of data presented to the Committee was also desired. These will be areas of focus for 2023.

Principal areas of Board Risk Committee focus in 2022

The table below describes the Board Risk Committee's principal areas of focus in 2022, alongside key outcomes and stakeholders considered.

Theme	Principal areas of Board Risk Committee focus	Outcomes
Financial crime	Oversight of the management and return to appetite of financial crime risk, which continues to be a principal risk for NatWest Group. Quarterly updates were presented from all three lines of defence. These included progress updates on return to appetite plans, transformation and emerging risks/issues. Additionally, the Committee considered the Money Laundering Reporting Officer's (MLRO's) report* and the enterprise-wide financial crime risk assessment. The Group CRO reported on the financial crime risk profile and remediation progress at each meeting.	Throughout the year, the Committee challenged management on return to appetite timetable, adequacy of resource and external support, and the pace of transformation and remediation to protect customers by driving improvements in financial crime. This included interrogating any differing views among the three lines of defence on confidence in the return to appetite timeframe. Additionally, in anticipation of the return to appetite the Committee ascertained from management the level of funding required to maintain risk appetite and the evolution of financial crime risk to ensure that threats were monitored and mitigated effectively. The Committee acknowledged the significant progress on financial crime made during the year, which was supported by all three lines of defence.
Model risk	BRC maintained close oversight of management activity to return to appetite for model risk through quarterly detailed updates, including the development, validation, and submission of Internal Ratings Based models for regulatory approval. In intervening months, updates were given via the risk management report.	The Committee closely monitored the number of models that had been revised, enhanced or removed due to changes in the external environment. It held management to account on return to appetite plans and challenged and agreed proposed recalibration of the model risk appetite measures to take account of regulatory approvals. It sought to understand model risk appetite breaches and resultant actions. It asked for comfort on resource contention, particularly from a technology perspective to ensure model risk was appropriately prioritised.

*Reviewed by BRC in line with the Committee's role to review reports and regulatory submissions on behalf of the Board and recommend them for approval.

Theme	Principal areas of Board Risk Committee focus	Outcomes
Risk function oversight and risk management strategy	BRC monitored the effectiveness of the Risk function, including the self-assessment undertaken by Risk supported by independent review and validation by the Internal Audit function. The Committee oversaw the development of a risk management strategy across all three lines of defence.	Whilst the Risk self-assessment concluded that the Risk Function was materially effective and met regulatory expectation, a number of improvements were identified by both Risk and Internal Audit assessments. The Committee requested that a combined action plan with detailed milestones was developed, and progress updates provided to the Committee to ensure that continued improvements were delivered at pace. These updates were discussed by the Committee, and as necessary management were held to account on progress and timelines. The Committee provided detailed feedback on the risk management strategy to ensure it was appropriately aligned with NatWest Group strategy and relevant to all three lines of defence.
Enterprise-wide Risk Management Framework (EWRMF) embedding (including risk appetite and RCSA activity)	The EWRMF is NatWest Group's primary risk management and risk governance document providing a framework for NatWest Group's overall approach to managing risk. The EWRMF is approved annually by the Board following the Committee's recommendation. The Committee considers EWRMF implementation to be vital to NatWest Group's robust risk management and control framework. BRC monitored the effectiveness of the risk management framework, including the development of RCSAs. Further details can be found in the Risk and capital management section of the report on page 162.	The Committee requested regular updates on embedding of EWRMF, particularly implementation of the RCSA process which included detailed oversight of achievement of milestones, ensuring that anticipated benefits were delivered in the control environment and that lessons learned from the initial pilots were incorporated into subsequent assessments. Internal Audit's year end review concluded that while some improvements were needed, the RCSA programme had made good progress on delivery and that RCSA activity overall was driving better risk awareness and understanding of the end-to-end process. The annual review of the EWRMF was presented to the Committee in December 2022. It was recommended to the Board for approval and was supported by Internal Audit's review of EWRMF, which stated that, overall, it was a comprehensive framework. The Committee oversaw the refresh of both qualitative risk appetite statements and the quantitative risk appetite measures in line with the EWRMF. Additionally, it monitored the risk profile of NatWest Group relative to risk appetite. The Committee provided feedback to ensure that the measures met regulatory expectations and were robust. The Committee challenged management to ensure risk appetite limits and triggers were set appropriately, with changes made to the proposed limits and triggers as a result. In particular, the Committee was keen to ensure that risk appetite for NatWest Markets was appropriate. The Committee received specific spotlights on all principal risks during the year and approved principal risk policies in respect of those risks under Board delegated authority. Internal Audit also reviewed the Risk Appetite Framework, concluding that this was a comprehensive risk framework, while recommending improvements to support the consistent use and setting of operational limits.

Theme	Principal areas of Board Risk Committee focus	Outcomes
Risk profile and reporting	Time was spent at every BRC meeting reviewing NatWest Group's current and future risk profile relative to risk appetite, with a particular focus on the impact of economic pressures experienced by customers and colleagues, and scrutinising management's actions to monitor and control exposures. Oversight included a detailed analysis of NatWest Group's risk profile, including the UK and global economic outlook, principal and emerging risks and threats, and NatWest Group's performance against risk appetite at each of its meetings via risk management reports.	The Committee continued to seek further improvements to the format and content of the risk management report throughout 2022, with detailed feedback provided by the Committee to improve the timeliness of information reported and the manner in which the information was presented in order to highlight key messages and to enhance the level of opinion provided by the Risk function. Updates implemented included more detail on actions being taken to mitigate principal risks, progress on implementation of the EWRMF and RCSAs, actions to address findings from the risk effectiveness self-assessment, credit risk and the Commercial Real Estate portfolio. It is expected that this work will continue into 2023 to leverage benefits from ongoing transformation activity regarding risk and finance data. BRC continued to focus on principal and emerging risks and the strategic impact of these. The impact of Russia's invasion of Ukraine, including impacts to the economy, and the cost-of-living pressures affecting our customers and our colleagues was a key element of discussions throughout the year. Particular focus was given to the credit, conduct, Consumer Duty, and reputational aspects of both these risks and how these were managed from a risk perspective. In addition, a reputational risk spotlight focused on the effectiveness of the reputational risk framework with a spotlight on the cost-of-living crisis. Other key areas of focus included financial crime and model remediation; regulatory compliance and conduct issues; operational and change risk. Reports on legal and regulatory developments and litigation risks were considered at each meeting. Quarterly reports were received from the Chairs of the management risk committees of the franchises and the board-level risk committees of material regulated subsidiaries providing an overview of issues being overseen and a channel for escalation of issues. The Chairs of the Board Risk Committees of material regulated subsidiaries were invited to join meetings throughout the year, providing updates on key areas of focus.

Theme	Principal areas of Board Risk Committee focus	Outcomes
Transformation/ Major Change programmes	BRC maintained oversight of the delivery of NatWest Group's transformation and change programme and its position relative to risk appetite, including oversight of red and amber-rated programmes.	The Committee requested updates on specific programmes reporting red and challenged how interdependencies between programmes were managed and monitored and how strategic risks were being managed. BRC also challenged management on slippage of Objectives and Key Results (OKRs), and the unequal distribution of milestones across the year. A proposed Change Risk profile measurement methodology change was challenged by the Committee but ultimately supported following the provision of additional rationale. The Committee also received an update on the management of UBI DAC withdrawal risks as part of the withdrawal from the Republic of Ireland.
Conduct and regulatory compliance risk (including Consumer Duty and ring-fencing compliance)	The Committee reviewed changes to risk appetite measures and received regular updates on the conduct and regulatory compliance risk profile, the elements driving the elevated conduct and compliance risk profile (both internally and externally) and actions being taken to return to appetite. A spotlight on conduct and regulatory compliance highlighted the steps being taken to embed regulatory compliance within the risk operating model across NatWest Group and in response to the FCA's Consumer Duty expectations through leveraging NatWest Group's purpose.	The Committee supported the Board in overseeing management's progress in addressing Consumer Duty requirements through detailed review of the implementation plan prior to approval by the Board. It was acknowledged that timelines were challenging and there was significant work to do during 2023. To ensure progress was being monitored, the Committee requested a detailed milestone plan to implementation which it was agreed it would track closely. The Committee also sought assurance from management on appropriate funding and resource. The Committee was informed of management's approach to support the Board ring-fencing compliance attestation due in March 2023 and progress towards delivering the attestation.

Theme	Principal areas of Board Risk Committee focus	Outcomes
Operational risk, operational resilience, and cyber security	Operational risk has been a key area of focus for BRC throughout the year. It received regular updates on NatWest Group's operational risk profile and risk appetite, with a particular focus on operational resilience, manual controls and information and cybersecurity. The annual spotlight on operational risk considered improvements made to the operational risk framework and oversight of change risk. The Committee considered the operational resilience self-assessment* in detail prior to approval by the Board, with important business services and associated impact tolerances operating as the foundation for the assessment. In addition, separate updates on information security were reviewed and BRC dedicated time to the consideration of cyber risk, the external threat landscape, the action being taken by management in response, and the results of the 2022 Cyber Stress test* in which NatWest Group participated.	Given the number of operational risk related incidents and regulatory focus, the Committee requested additional detailed updates on operational risk performance and trends. The information and cybersecurity spotlight included consideration of any increased threat from Russia following the invasion of Ukraine. Additionally, BRC received updates on the results of a full scan of NatWest Group's data centres and remediation activity carried out on Log4J vulnerabilities. The Committee requested a further update in respect of end of life systems and received assurance from management on the risk posed to NatWest Group, the sufficiency of investment, and how it compared to peers. Manual controls are a key area of concern for the Committee and the Committee requested an update on the management of manual controls and actions to reduce the number of manual controls was provided. The Committee will continue to receive information on the elimination of manual controls and drive to automation and requested that updates be included in every risk management report. The Committee queried the operational risk profile given recent payments issues and asked that consideration be given to whether risk appetite measures were appropriate. The Committee received assurance from management that an end-to-end review of payments technology and architecture was being undertaken. Given the extensive competition for talent and cost of living crisis, the Committee considered how people risk was being managed and mitigated across NatWest Group.

*Reviewed by BRC in line with the Committee's role to review reports and regulatory submissions on behalf of the Board and recommend them for approval.

Theme	Principal areas of Board Risk Committee focus	Outcomes
Data management and BCBS239	Data is an emerging area of focus for the BRC and it received reports on the data management risk profile, including the activity underway to transform data consumed by Risk and Finance functions for risk and regulatory reporting purposes and to respond to issues identified as part of an industry-wide data thematic review.	The Committee received regular updates on compliance with BCBS239, challenging management on its approach to assessment of NatWest Group's compliance status. Changes to the Risk Data Aggregation & Reporting Framework were reviewed and approved by the Committee under Board delegated authority. The Committee continues to have concerns on the timeliness and accuracy of some data and requested sight of plans to improve the risk reporting processes, particularly through the Risk and Finance Data Transformation Programme. The Committee asked to see regular updates on progress against programme milestones. An update on the programme was discussed at a joint BRC/GAC visit to Finance in December 2022 and will continue to be an area of focus.
Outsourcing and third party risk management	BRC maintained oversight of NatWest Group's outsourcing and third party risk management to facilitate oversight of the identification and management of third-party related risks. In particular, the Committee focussed on the Cloud Hosting strategy and management of related risks.	BRC discussed changes in Board accountabilities for Outsourcing following the publication on SS2/21. The Committee challenged management regarding how their approach satisfied regulatory expectations and requested further updates to the third-party risk management dashboards and policies which facilitated oversight of the identification and management of third-party related risks. The Committee requested clarification of the delineation of responsibilities between the Board and Executive and challenged management on its assessment of exit planning, including timings. In addition, the Committee recommended the outsourcing policies for Board approval. The Committee also considered the Cloud Hosting strategy which had been approved by management and received updates on management's response to the findings of a benchmarking review of NatWest Group's Cloud Hosting strategy compared to peer banks. The Committee considered the enhancement of risk appetite measures in relation to cloud hosting and the Committee requested that the proposed future approach to concentration risk be considered in response to Committee concerns. The Committee has requested further detail on NatWest Group's transition to the cloud.

Theme	Principal areas of Board Risk Committee focus	Outcomes
Financial and Strategic risks	Regular monitoring of principal financial and strategic risks is a pivotal part of BRC's role both via routine risk reporting and via regular focused reports. BRC completed a detailed review of capital, funding and liquidity requirements and also reviewed capital distribution proposals prior to Board consideration. BRC received separate updates in respect of the retail and wholesale credit risk portfolios in addition to reporting on credit and market risk within the risk management report. The Committee also received updates on the Commercial & Institutional (ring-fenced bank) credit portfolio and credit decisions made by the Executive Credit Group. Further spotlights were considered in respect of traded and non-traded market risk.	**Credit and market risk** – These updates provided insight into the sources of the risk, including asset quality, risk management approach and risk appetite, controls as well as testing and monitoring activity undertaken. The Committee challenged whether the level of the BRC's oversight of traded market risk was appropriate and whether capabilities were comparable to peers. This resulted in traded market risk stress limits being revised and external insight from EY being provided. The Committee also questioned management on the measures being put in place to support customers in difficulties due to the cost of living crisis, including problem debt preparedness and monitoring for signs of stress. The Committee received regular status updates and assurances from management that a pro-active approach was being taken across NatWest Group and that there were sufficient resource levels in the customer services teams. **ICAAPs, ILAAPs and Budget and Risk Appetite Stress Tests*** – The Committee reviewed and recommended to the Board the scenarios to be used during 2023 for the budget process, IFRS9 management and for the monitoring of the risk profile relative to the approved Risk Appetite. BRC considered the budget and budget stress test as well as the ILAAP and ICAAP for the NatWest Group and recommended them to Board for approval. It supported Risk and Internal Audit improvement recommendations which will be incorporated in 2023 submissions. **Capital distributions** – The Committee provided detailed review of proposals to increase capital distributions to shareholders prior to approval by the Board, including an in-market buy-back and payment of a special dividend with consolidation features, following the improved projected capital position of NatWest Group. The Committee reviewed and recommended initial proposals for year-end capital distributions to the Board ahead of final approval in February 2023. The Committee challenged management on the appropriateness of reducing the level of capital held above regulatory supervisory levels, the manner in which capital would be deployed over the plan, and the level of anticipated future capital distribution. The Committee recommended the Capital Management Enhancement Plan to the Board for approval and had oversight of its delivery which would be required to support 2022 year-end capital distributions. **Climate risk** – The Committee considered the Climate Biennial Stress Test Results Round 2* (CBES 2) in detail prior to Board approval. Following the embedding of climate risk into the existing EWRMF, BRC received a spotlight on climate risk which considered the status of franchises and functions against maturity plans and embedding of the Climate Risk framework together with feedback from the PRA on CBES2. The continued challenge to achieving NatWest Group's climate ambition and maintaining its position versus peers was discussed.

*Reviewed by BRC in line with the Committee's role to review reports and regulatory submissions on behalf of the Board and recommend them for approval.

Theme	Principal areas of Board Risk Committee focus	Outcomes
Stress testing, recovery plans and the resolvability self-assessment	BRC reviewed in detail the stress testing activity undertaken by management to identify and monitor risks and threats. BRC also monitors and challenges the development of plans which would allow NatWest Group to be dealt with effectively in the event of financial failure.	**Stress testing scenario –** Stress testing scenarios used to monitor and measure risk profile have been kept under close review by the Committee given the significant changes to the external environment and the importance of capturing the range of outcomes NatWest Group needs to be prepared for. Management responded quickly to the impact of the Russia/Ukraine conflict providing the Committee with updated scenarios to reflect the range of potential risk and uncertainties posed. BRC considered the stress scenarios to be used for monitoring a moderate, severe and extreme stress, including for the 2023 Bank of England Annual Cyclical Scenario (ACS) Stress Test and recommended the same to the Board for approval. **Bank of England stress tests** — BRC challenged and scrutinised the outputs of the 2022 Bank of England Annual Cyclical Scenario (ACS) Stress Test* and recommended it to the Board. Overall, the results showed that NatWest Group remained within risk appetite and remained above regulatory thresholds in all stress scenarios, which the Committee noted reflected strong capital and risk management by NatWest Group. The Committee questioned management on the results, focusing particularly on ensuring that the results and the methodology met regulatory expectations. The Committee sought clarity on the Prudential Regulation Authority's views of the credit submission. **Recovery Plan** – BRC performed a detailed review of changes to the NatWest Group Recovery Plan* prior to approval by the Board. The Committee noted the mature process now in place and improvements that had been implemented in the past year. It was acknowledged that NatWest Group had adequate capacity and capabilities in a recovery scenario. **Resolvability self-assessment** – The Committee reviewed the Resolvability self-assessment* and recommended the final submission to the Board for approval. The Committee discussed market disclosure requirements and future reporting requirements. It considered management's response to regulatory feedback on the Resolvability self-assessment particularly the Board's role in resolution, and was keen to understand how NatWest Group compared to peers. BRC received updates on resolution planning and retained oversight over material Resolution Programme deliverables to year end, including Operational Continuity in Resolution.

*Reviewed by BRC in line with the Committee's role to review reports and regulatory submissions on behalf of the Board and recommend them for approval.

Theme	Principal areas of Board Risk Committee focus	Outcomes
Control environment	BRC continued to monitor the effectiveness of internal controls required to manage risk and was provided with updates regarding the control environment ratings of NatWest Group, franchises, functions, services, and legal entities.	Particular areas of focus were in respect of financial crime, model risk, operational risk and data risk. The Committee received regular updates on trends in Early Escalation Events and management focus on the culture of escalating issues timeously. The Committee reviewed and supported management's report on the effectiveness of internal controls required to manage risk. BRC received updates on Intelligent Risk Taking as a fundamental pillar within the One Bank culture. This included an update on the development of further guidance regarding expected behaviours including examples. The Committee continuously challenged progress towards a CE2 rating as it came through in a number of discussions through the year. The Financial Crime CE rating was a particular area of focus.
Accountability and remuneration	BRC continued to provide oversight over the risk dimension of performance and remuneration arrangements, as well as accountability review recommendations, working closely with RemCo.	**Remuneration** – The risk and control goals of the NatWest Group Executive Committee members and relevant attendees (ExCo) were considered by the Committee, with particular focus on ensuring alignment with regulatory expectations. These were recommended to RemCo, together with the individual performance goals for the Group Chief Risk Officer. In addition, the Committee considered the risk and conduct performance of ExCo and made recommendations to RemCo regarding risk related adjustments to variable pay, including annual bonus awards, the grant of relevant Restricted Share Plan awards and vesting of the 2020 Long-Term Incentive awards, thereby ensuring fair reflection of risk and conduct performance in variable pay award and vesting outcomes. More generally, the Committee considered and recommended to RemCo adjustments to NatWest Group's bonus calculation to reflect NatWest Group's risk and conduct management performance. **Remuneration policy** – The Committee conducted its annual review of the Material Risk Taker identification process. In addition, the Committee commissioned a review of its role in the NatWest Group's remuneration governance framework. The review concluded that, whilst the Committee's involvement in performance and remuneration arrangements is in line with both regulatory expectations and UK peer banks, improvements were required to the format and content of remuneration-related materials presented to the Committee. Improvements are underway and will remain a focus in 2023. **Accountability** – The Committee continued its oversight of regulatory reportable events, other material investigations and resultant accountability review recommendations, ensuring the appropriateness of these recommendations from a risk perspective. Further detail on how risk is considered in remuneration decisions can be found in the Report of RemCo from page 124.

Report of the Group Sustainable Banking Committee



Letter from Mike Rogers,

Chair of the Group Sustainable Banking Committee

Dear Shareholder,

I am pleased to present my fifth and final report as Chair of the Group Sustainable Banking Committee (the Committee or SBC).

Delivering against the purpose-led strategy

The Committee continued to support the Board in overseeing, supporting and challenging actions being taken by management to run the bank as a sustainable business, capable of generating long term value for stakeholders. This included playing an important role in overseeing progress and performance against NatWest Group's purpose-led strategy on behalf of the Board. This year our agendas and discussions have reflected the challenging external environment, both economic and regulatory, and how it is impacting our stakeholders as well as our sustainable business model.

In response to feedback arising from the 2021 performance evaluation and working together with the management team, we have worked to drive action and effect change in the areas within our remit.

2022 Highlights

We held several spotlight sessions throughout the year, covering the pillars of our purpose (climate, learning and enterprise), as well as customer, people and culture, and conduct and ethics. The views of internal and external stakeholders were sought wherever possible and meeting time was prioritised towards meaningful debate and discussion.

Membership, Meetings and Escalation

There were no changes to the Committee's membership during 2022. Membership of the Group Sustainable Banking Committee continued to comprise three non-executive directors as members, with two non-executive directors from NatWest Group's ring-fenced bank Board observing, along with management attendees. More details of membership and attendance of the Committee can be found in the Corporate Governance report.

"This year our agendas and discussions have reflected the challenging external environment and how it is impacting our stakeholders as well as our sustainable business model."

The Committee continues to hold five meetings per annum and reports to the Board on the Committee's activities after each meeting, escalating matters for the Board's attention as appropriate. An ad hoc meeting was scheduled in 2022 to revisit Climate transition plan progress including management actions raised ahead of consideration by the Board. The Committee operates under delegated authority from the Board and its terms of reference are available on natwestgroup.com. These are reviewed annually and approved by the Board.

Performance evaluation

The annual review of the effectiveness of the Board and its senior committees was conducted internally in 2022. It was determined that the Committee continued to operate effectively and have in-depth discussion on areas of critical importance to the purpose and long-term sustainability of NatWest Group. It was suggested that the structure of meetings be re-visited to receive more frequent updates on key matters, including emerging issues and not be duplicative with other forums. The Committee is keen for its discussions to be useful for management whilst driving further action.

In 2023 the Committee will look to ensure the areas considered by the Committee continue to add value to the Board and management, with well structured, forward-looking, customer-focused and strategic discussions. Challenging views and a diverse range of insights will continue to be sought to support the 2023 meetings.

The Committee operated within its terms of reference during the year. In July, the Committee's terms of reference were broadened to incorporate environmental (including biodiversity, forests and water) oversight to help promote the topic within the Board-level governance framework and this will be an area of focus in 2023.

Conclusion

The Committee has continued to effectively support the Board in overseeing progress on the embedding of purpose, which will drive NatWest Group as a sustainable business generating long-term value for stakeholders. We have continued to benefit from a broad range of internal and external stakeholder perspectives, to better understand how NatWest Group's actions are supporting our customers, colleagues and society.

I would like to take this opportunity to thank everyone who has contributed to the Committee's activities during 2022 and throughout my tenure as Committee Chair, including my fellow directors, attendees, and presenters, for their commitment and dedication.

Mike Rogers

Chair of the Group Sustainable Banking Committee
16 February 2023

Below are the key discussion points and outcomes for 2022.

Theme	Principal areas of Committee focus	Outcomes
Climate and broader environmental progress	The Committee discussed climate change action and progress across the broader environmental agenda. This included updates on the challenge faced, new initiatives, carbon measurement, and a detailed discussion on climate transition sector plans. The Committee welcomed representatives from an external asset management firm to share their views on NatWest Group's climate and ESG progress and to help promote investor voices in the boardroom. The Committee reviewed NatWest Group's Environmental, Social and Governance rating performance and key themes arising in relation to this. The Committee considered steps being taken and analysis of the current position on decarbonising the bank's supply chain to support efforts to achieve NatWest Group's net zero ambition in relation to its own operations. The work emphasised how purpose is embedded in NatWest Group's whole eco system. Further updates will be provided as implementation continues.	Discussion and challenge focused on: • Decision-making: We discussed management governance and the role of the Climate Executive Steering Group and Reputational Risk Committees in considering challenging decisions. In the context of carbon measurement, it was acknowledged that the process of systematically transforming the organisation will take time; • Assurance: We discussed how we as the Board can get comfortable with the underlying data supporting the external disclosure and the assurance activity underway with NatWest Group's external auditors; • Prioritisation & opportunities: We learned more about the sectoral interdependencies and interconnected actions/ opportunities from the management teams involved. The emerging commercial opportunities are also something to factor into our future Board strategy sessions; • Policy influencing: Following on from an action raised by the Committee, management presented their policy influencing plan which focused on home energy given the particular challenges felt in that sector. • The Committee also sought further detail on sector plan progress ahead of Board discussion and an ad hoc meeting was arranged to address this.

Theme	Principal areas of Committee focus	Outcomes
Customer experience	The Committee considered actions being taken by management to improve customer service and experience across key customer segments. Committee discussion focused on vulnerable customers and problem debt in response to the economic environment and provided an important customer and colleague listening opportunity, as well as a chance to get into the detail on some experimental work. The Committee had a spotlight session on customer journey improvements stemming from complaints data analysis assessed at the Voice of the Customer forum. The Committee also received the annual Internal Audit Behavioural risk review. This provided an overview of the work of the team during the year to understand customer behaviours and outcomes quantitatively, highlighting the good progress made in remediating issues and opportunities to enhance understanding and evidencing.	The Committee agreed that it supported the approach to customer journeys, and explored scaling opportunities and the associated challenges. In the context of the cost-of-living crisis, we were joined by the frontline Financial Health & Support telephony team to listen to real customer calls. Two key challenges discussed with the Financial Health & Support teams were supporting colleagues' mental health and responding to the growing issue of supporting vulnerable customers. The Committee requested further detail on NatWest Group's vulnerable customer strategy, acknowledging the increasing number of customers deemed vulnerable. This became part of wider Board and Executive discussion on Consumer Duty and ensuring that NatWest Group has a sustainable strategy as a relationship bank in a digital world for all customers.
Enterprise	The Committee received updates on how the business supports NatWest Group's ambitions in relation to Enterprise. Progress and future plans for Enterprise were reported to the Committee, including a spotlight on the partnership with Aston University to develop impact-based reporting measures. External insight was also provided from Martin McTague, Federation of Small Businesses.	The Committee discussed both the growth opportunity and challenges in relation to NatWest Group's Enterprise ambitions. The Committee noted the innovative approach presented in relation to measuring impact, which would provide robust analysis and metrics upon which stakeholders could measure NatWest Group. The Committee discussed the challenges around building customer confidence during challenging financial times in the small and medium-sized enterprises market and how partnerships could be used to provide layered support for customers in these circumstances. The Committee encouraged management to focus on how NatWest Group can leverage its products and communicate with customers in an impactful way as a relationship bank in a digital world.

Theme	Principal areas of Committee focus	Outcomes
People, Culture and Learning	The Committee oversees action taken by management to engage today's workforce and build the workforce for tomorrow. It focused on work being undertaken on talent acquisition; internal mobility and reskilling; and strategic workforce planning for the future. We invited colleagues to join the meeting to provide their experience of upskilling and reskilling. The Committee reviewed progress of the cultural change to building a purpose-led bank through consideration of our colleague survey results and workforce policies and practices, including how our values and purpose are at the centre of our approach to support long term, sustainable success and driving a diverse and inclusive workforce.	The session considered the strategic future for the workforce at a macro level and highlighted the scale and criticality of the people transformation for the organisation in the next three to five years. The changing nature of the mindset and skills of the workforce of the future was discussed. Challenges of attracting talent, recruiting at speed, retaining colleagues and reskilling were all considered. The Committee noted the commitment to supporting colleagues through internal mobility and reskilling and developing the talent pipeline and discussed the scale of the ambition. The Committee requested further detail on the shape and size of programmes in future and noted the inherent risk of dilution of experience and knowledge whilst retaining the organisation's culture as a result of the changing workforce. Strategic workforce plans for the future were outlined and will be considered again at a future meeting once further evolved.

Theme	Principal areas of Committee focus	Outcomes
Conduct and Ethics	In support of the Committee's responsibilities to challenge management on ensuring decisions are purpose-led, the Committee's session on conduct and ethics focused on the important area of financial wellbeing and work across Retail to support the financial health of customers. Updates on previous Committee discussions on improving the Financial Health Check, branch strategy and branch culture were provided. We were joined by Caroline Siarkiewicz (CEO, Money and Pension Services (MaPS)), who provided external insight and an overview of the MaPS UK strategy for financial wellbeing and current demand and usage levels as a result of macro events such as cost of living pressures. SBC considered NatWest Group's updated Human Rights Position Statement and Modern Slavery and Human Trafficking Statement and recommended them to Board for approval. The Committee was provided with a comprehensive update on progress on Human Rights.	• Financial wellbeing: The session provided the Committee with a comprehensive update on key activities and actions underway to advance NatWest Group's approach to financial wellbeing. This included discussion on the future vision of the financial wellbeing proposition and roadmap to deliver, as well as how our colleague, channel and product strategies will support customer wellbeing. The Committee discussed how a more advanced and personalised offering for customers could be achieved through data and online and physical presence and how potential conduct implications could be managed. The importance of helping customers build lasting financial capability habits and how NatWest Group's tools could support this were examined. External insight highlighted the significance of local and regional collaboration and the Committee suggested consideration be given to NatWest Group's presence in regional areas to support this. The Committee discussed the number of bodies supporting financial wellbeing and how impact could be scaled through a more coordinated approach. • A spotlight on mortgages was provided in the context of the current environment, including the impact of interest rates and end of fixed term rates and the Committee considered the actions being taken to support customers. • Human Rights and Modern Slavery: Modern Slavery discussions focused on supply chain and third party contract controls to ensure NatWest Group's principles are upheld by its suppliers. The Committee noted the progress made in relation to human rights and the challenges faced and actions being taken to drive improvement. Reflecting on ESG benchmarks and ratings, the Committee challenged whether more could be done to ensure NatWest Group's public disclosures reflect the work undertaken, particularly in relation to social issues.

Theme	Principal areas of Committee focus	Outcomes
Supporting long-term value creation	The Committee received a purpose dashboard at each scheduled meeting allowing it to monitor progress towards our strategic purpose targets and metrics. It had oversight of cost-of-living metrics and actions being taken by management to support our customers, communities and colleagues. The Committee also considered its role in the performance and remuneration process, agreeing it was appropriate for it to continue to provide advice to the Group Performance and Remuneration Committee on customer, strategy and people-related measures, advocating for sustainable targets within the incentive framework. The Committee noted progress made on the UN Principles for Responsible Banking and the target setting requirements, noting that most, but not all, criteria were currently met.	The Committee sought improvements in the presentation of the dashboard to improve clarity. It challenged whether targets were sufficiently ambitious, progress on CMA rankings, and the effectiveness of financial capability targets for improving financial health. The Committee found the costs of living dashboard a useful tool to oversee NatWest Group's position and monitor the actions being taken. They discussed how customers were being supported in relation to mortgages and future activities in development.

Report of the Technology and Innovation Committee



Letter from Yasmin Jetha,

Chair of the Technology and Innovation Committee

Dear Shareholder,

I am delighted to present my third report as Chair of the Technology and Innovation Committee (the Committee or TIC). TIC is responsible for supporting the Board by overseeing, monitoring, and challenging the actions being taken by management in relation to technology and innovation. In doing so, the Committee also gives due consideration to NatWest Group's purpose throughout discussions. Authority is delegated to TIC by the Board and a regular report of the Committee's activities is provided to the Board. The terms of reference are available on natwestgroup.com. These are reviewed annually and approved by the NWG Board.

During 2022, the Committee has played an important role in helping to support and challenge management plans to develop sustainable relationships with our customers through technology and innovation. Below is a summary of the themes and principal areas of focus of the Committee during the year.

Membership and meetings

The Committee is comprised of three non-executive director members, Frank Dangeard, Patrick Flynn, and me. More details of membership and attendance at meetings can be found on pages 77 of the Governance Report. As agreed, as part of the 2021 Committee evaluation, an invitation to each TIC meeting was extended to all Board members and a number of Board Directors have attended meetings during the year.

"The Committee has played an important role in helping to support and challenge management plans to develop sustainable relationships with our customers through technology and innovation"

The Committee is supported by management and the Group CEO, Group CFO, Group Chief Information Officer (previously the Chief Administration Officer), Group CRO, Director of Strategy & Corporate Development and Chief Technology Officer are all standing attendees. External insights were provided through the updates provided by management and through attendance by external guests.

The Committee held four scheduled meetings during 2021. One meeting was convened virtually with three meetings held in person.

Performance evaluation

The 2022 review of the Committee's effectiveness was undertaken internally. Key findings included a reduction in the number of meetings to three longer meetings each year from 2023; the opportunity for management to make greater use of the Committee as a sounding board; and consideration of how the expertise of the Technology Advisory Board could be leveraged more. It was agreed that these actions would be addressed during 2023. The Committee continued to act in accordance with its terms of reference throughout the year.

Conclusion

I am delighted to chair this Committee as it continues to support the Board in an area core to the Group's purpose to champion potential, helping people, families, and businesses to thrive.

The Committee's primary focus is on management plans to leverage changes to future technology, the innovation landscape and its impact on NatWest Group's purpose to ensure we remain relevant for the future and improve service provided to the customers, colleagues and communities which we serve.

I want to take the opportunity to thank the Committee members and attendees for their continued commitment during 2022.

Yasmin Jetha
Chair of the Technology & Innovation Committee
16 February 2023

Theme	Principal areas of Committee focus	Outcomes
Digitisation of NatWest Group to deliver enhanced customer value	The Committee has considered how the modernisation of our technology is helping us better address customer needs, and improve the health and resilience of our estate. To support this area of focus the Committee received an update on modernising technology and progress made by NatWest Group. In particular on resolving legacy and complexity issues in respect of the architecture, allowing increased agility and responsiveness to customer and colleague needs. This included the use of predictive modelling of customer lifetime value. The Committee also discussed the evolution of open finance from a response to a regulatory requirement to focus on new products, services and revenue streams which leverage the modern architectural patterns used within NatWest Group. A spotlight on the use of the cloud, including how NatWest Group leveraged a variety of hosting environments; and how this would drive competitive advantage was considered. Finally, an update on the data strategy was provided.	**Modernisation of the technology estate:** The Committee was keen to understand how NatWest Group was positioned versus peers. The Committee queried how challenges resulting from internal processes slowing progress on delivery for customers and colleagues would be addressed and encouraged strong linkage to important business services and customer journeys to ensure customer centricity of design for new architecture. A spotlight on a new depository services platform within C&I, which would help protect investors and oversee fund managers, was provided. **Open finance:** Management explained the approach to driving increased commercialisation of open finance and the Committee discussed the potential size of the opportunity together with how initiatives could be used across the organisation. **Leveraging cloud:** The Committee discussed NatWest Group's position versus peer banks, with reference to a Gartner research paper, and how this aligned with regulatory views on NatWest Group's position. Consideration was given to the potential impact of the entry of large cloud service providers into financial services. **Data Strategy:** The update considered potential disruption to NatWest Group's income streams from big technology companies. It also considered the purpose-led approach to the implementation of the data strategy with firm guardrails established to ensure that public trust was not eroded.

Theme	Principal areas of Committee focus	Outcomes
Powered by partnerships, Ventures and Innovation	The Committee focused on the culture and use of new technology, innovation and partnership, including how we prioritise, partner and work. This included an update on the Ventures portfolio with deep dives on Mettle (our digital banking proposition for small businesses to combine their current account with invoicing, payments and bookkeeping capabilities) and Take Payments formerly Tyl (merchant acquiring) and PayIt (send and receive payments); and a deep dive on NatWest Group's approach to partnerships.	**Ventures:** Key areas of discussion included the progress made on the growth ambitions for Take Payments and the launch of the cloud based platform for Mettle. Lessons learned including the level of talent attracted, support from the franchises and funding were considered. Use of NatWest branding for new innovation activity was discussed noting that this was in line with the decision to merge innovation with main business activity. **Partnership update:** considered how partnerships were being developed, were focused on genuine customer need, and were carried out on a One Bank basis. The culture of partnership working was considered and the Committee sought confirmation that a One Bank approach was taken to prioritisation decisions and allocation of seed funding. Useful external insights and commentary on NatWest Group as a partner were provided by Tim Larder and Dr Matt Wood from Amazon Web Services. The importance of speed in moving from ideation to proof of concept was emphasised and NatWest Group's position versus peers in the UK was noted.

Theme	Principal areas of Committee focus	Outcomes
Future Ready	The Committee sought to understand the role NatWest Group can play in the value chain and future financial services to stay relevant to customers. This included discussion of the use of technology by the Security team and potential future opportunities to monetise NatWest Group's services; NatWest Group's approach to digital assets; and the evolving future landscape and technology trends.	**Security, Trust & Protection:** The Committee considered how NatWest Group's position as trusted data custodian could help support customers from a security perspective, particularly customer identity attribute sharing and opportunities to help reduce levels of fraud across the industry. The challenges in progressing initiatives, including the value of industry-wide solutions and legal and regulatory hurdles was discussed. This is an area that will continue to be kept under consideration and investment in future. **Digital Assets**: The outcome of pilot activity undertaken to test NatWest Group's appetite to offer digital currencies to a range of customer groups was discussed and the reduced attractiveness of digital currencies following external market developments was noted. The potential broader future use of digital assets and digital ledger technology would continue to be kept under review given the potential impact in future periods. **Evolving landscape**: the evolving landscape was discussed through consideration of five themes: digital, personal, embedded, safe and secure and polarised. Key areas of discussion included the evolution of AI capabilities and the importance of staying relevant to customers. The Committee recognised the need for safety and security of customer information and the opportunity to assist with technology skills and education for vulnerable customers as important considerations in NatWest Group's response to the evolving landscape. Following discussion, the Committee requested future updates in respect of how the blurring of the physical and digital worlds might impact financial services and what NatWest Group's response would be; and sight of NatWest Group's response to recent regulatory consultations regarding the impact of big technology on Finance and a summary of the activity of other regulators in respect of digital markets.

Directors' remuneration report



Letter from Lena Wilson, CBE

Chair of the Group Performance and Remuneration Committee

Dear shareholder,

This is my first report as Chair of the Group Performance and Remuneration Committee having succeeded Robert Gillespie in September 2022. I would like to place on record my sincere thanks to Robert for his considerable contribution to remuneration practices at NatWest Group. Robert steered the committee with great skill and determination through a period of significant transition for the organisation. I have been a member of the committee since April 2020 which has helped to facilitate a smooth handover in our responsibilities.

Supporting our colleagues with the cost of living

I want to begin by acknowledging that, very understandably, the cost-of-living crisis has been a great concern for many of our customers and colleagues. As a committee, we have discussed the impact of this situation at length and the ways in which we can help colleagues through this difficult and unsettling time. Our colleagues are at the heart of our purpose and our aim has been to respond in a sensitive and transparent way, as we have done throughout the COVID-19 pandemic.

As part of the process, we dedicated time to understand the concerns of individuals across the organisation. I have been particularly close to this in the role I held as Chair of the Colleague Advisory Panel. This has given me a deep understanding of our wider workforce practices and how colleagues feel about working for NatWest Group. Our approach to remuneration is that colleagues must be paid fairly for the role they perform and in ways that support our values and culture.

Support for colleagues over the last 12 months

April 2022 – scheduled annual salary review

- 3.6% average increase across our global workforce, our largest investment in pay for over five years.
- Majority of our most junior UK colleagues received at least 4% with 38% receiving 5% or more.

September 2022 – additional targeted action

- c.22,000 of our lowest-paid colleagues globally received a further permanent pay rise.
- UK colleagues earning £32,000 or less received a 4% salary increase and we increased our salary ranges by 4%. This resulted in an average increase of £1,000 for impacted colleagues.
- Our investment in fixed pay in April and September 2022 combined was £115 million per annum, an increase of 85% on 2021.

December 2022 – further support announced

- A one-off cash payment in January 2023 to approximately 60,000 colleagues, worth £1,000 for UK colleagues.
- From April 2023, nearly 90% of our junior UK colleagues (A and B grades) covered by our negotiated pay approach will receive a salary increase of at least 7%, and almost two thirds will receive 8% or more, on top of the £1,000 payment in January.
- Broad parts of the UK workforce, including A to C grade colleagues, will receive salary increases of at least £2,000 and salary ranges have also been improved by 6% or more since September 2022.

This support is in addition to the significant investment in colleagues' learning, development and wellbeing.

Following an extensive data-led review of pay across the organisation, a permanent uplift to base pay of 4% was agreed to support our lower paid colleagues from September 2022. This targeted action was made in consultation with our employee representative bodies and welcomed by many, and was intended to help those colleagues most likely to be affected by the sudden spike in inflation. However, I know that cost-of-living pressures have intensified since then and are being felt broadly across the workforce.

We have sought to build on this action as part of our year-end pay decisions for 2022. In the next stage of our support, we made a one-off cash payment to around 60,000 colleagues (more than 95% of the workforce) in January 2023. We also announced significant salary increases to take place from April 2023 for a broad range of colleagues.

If we look at the year-on-year position, a junior colleague in the UK will typically have received salary uplifts of 4% in both April and September 2022, a one-off payment of £1,000 in January 2023, with a further salary increase of c.7% to come in April 2023. In total this equates to a c.15% salary increase for most A and B grade colleagues. I believe this is a clear demonstration of our determination to invest in colleagues' pay. The lowest starting salary will also rise to £22,000 on a full-time basis, an increase of 16% since April 2022.

NatWest Group has been an accredited Living Wage employer in the UK since 2014 and sets pay levels above the real living wage (RLW) rates. We take a similar approach across our major hubs outside the UK. Following the early announcement of the new RLW rates in 2022, we agreed to immediately increase pay for our colleagues and relevant suppliers ahead of the May 2023 deadline.

In these current extraordinary circumstances, we know that it is impossible to entirely insulate colleagues from inflationary pressures. However, we believe the actions we have taken will deliver a significantly improved and competitive level of pay in all our markets. We engaged again with our employee representative bodies and I am delighted that the latest proposal was supported by their members in the ballot.

Our decisions aim to balance the current economic context and managing our long-term cost base with business performance and our need to pay fairly and retain critical market skills. It was important that we recognised the squeeze in living standards and the dedication of colleagues in delivering strong performance during a turbulent year.

Other support for the wider workforce

Financial wellbeing is vitally important and colleagues are supported with access to pension and protection products, shopping discounts, support with budgeting and help with managing debt. Over 20,000 colleagues contribute to Sharesave each month. Sharesave is available to 97% of colleagues, with participants across the UK, Ireland, India and Poland, and is particularly popular with our more junior colleagues. It provides an opportunity for colleagues to benefit from increases in the NatWest Group share price with limited risk, encouraging financial capability and aligning their interests with shareholders.

Another way that we champion the potential of colleagues is by providing extensive development opportunities and dedicated learning days. During 2022 we extended this to give each colleague two days to learn new skills for the future. There is also a comprehensive wellbeing programme, supporting a range of mental health and financial health initiatives.

I am also very proud of our new Partner Leave policies, promoting a shared approach to caring and helping growing families to thrive. The policies introduce the same pay and leave entitlements as local Maternity and Adoption Leave policies for eligible fathers and partners to share the caring responsibilities.

Pay gap reporting

We are making good progress in building a diverse, equitable and inclusive workplace and the committee reviews gender and ethnicity pay gap metrics as part of the process. This is the fifth year that we have published ethnicity pay gap information on a voluntary basis. For the first time, we have disaggregated our ethnicity pay gaps to compare Black, Asian, mixed and multiple and minority ethnic average hourly pay to that of White colleagues.

We are confident that our colleagues are paid fairly and policies and processes are kept under review to make sure this continues to be the case. You can find full details of our pay gap reporting in the Strategic report and at natwestgroup.com.

How we assess performance

Our purpose-led strategic priorities are communicated to all colleagues. The performance goals and measures agreed for the executive directors flow through to the executive management team, adjusted as appropriate to reflect individual areas of responsibility. The remuneration construct agreed for executive directors also applies to members of the NatWest Group and NWH Executive Committees.

This alignment at senior level is continued with performance goals and measures cascading further through the organisation, providing consistency in approach across the workforce. Performance against these goals and targets is directly linked to performance ratings and variable pay decisions at an individual level, and the business-level assessments are reflected in performance adjustments to the bonus pool.

Performance highlights for 2022

In a difficult macroeconomic environment, NatWest Group has demonstrated resilience and performed strongly in 2022. Income has grown, reflecting increased lending in key areas and the impact of base rate increases. In assessing the performance of the executive directors, we made a downward adjustment for the material changes in the base rate against our assumptions for the year. The adjustment was made so that management did not benefit from the element of performance that we deemed to be outside their control. Our capital distribution plan has continued to deliver good value for shareholders and we are well placed to invest for growth and provide the support our customers need.

Performance highlights

Income growth
26.15%
2021: 0.25%

Attributable profit
£3,340 million
2021: £2,950 million

RoTE
12.3%
2021: 9.4%

Climate and sustainable finance and funding
£24.5 billion
2021: £17.5 billion

Shareholder returns through dividends and buybacks
£5.1 billion
2021: £3.8 billion

Bonus pool for the wider workforce

The bonus pool is based on a balanced range of strategically important measures, including financial performance, customer outcomes, colleague experience and diversity, risk and progress against our climate and purpose ambitions. The bonus pool was determined in the context of strong financial and capital performance, with the distribution of £5.1 billion to shareholders through buybacks and dividends. The committee agreed a 2022 bonus pool of £367.5 million for those colleagues who are eligible to receive an award.

This is around 23% higher than the 2021 bonus pool, with the increase largely the result of strong performance, an increase in the number of bonus-eligible colleagues and the fact that last year's bonus pool was materially reduced to reflect the fine imposed by the FCA on National Westminster Bank Plc in 2021 for past breaches of the Money Laundering Regulations 2007.

Remuneration policy for executive directors

We obtained approval for a new directors' remuneration policy (the Policy) at our 2022 AGM. The Board was delighted with the strong level of support from shareholders, with around 93% of votes in favour. The final form of the Policy reflected feedback received from shareholders including a preference to reduce committee discretion in assessing performance.

Our previous Policy differed in a number of ways to traditional practice, with no annual bonus and a unique long-term incentive construct that delivered significantly reduced quantum compared to peers. As disclosed in last year's report, we considered shareholder guidelines that normally expect an appropriate discount, of at least 50%, to be applied when introducing restricted share plan (RSP) awards compared to a traditional LTIP. The committee was satisfied that the move to the RSP is aligned with the spirit of the guidelines as it delivers more than a 50% reduction when the RSP is compared to traditional LTIPs envisaged by the guidance.

Under the new Policy, annual bonus awards, with formulaic, weighted measures and purpose-led targets, are complemented by RSP awards that support longer-term performance and shareholder alignment. The Policy addresses our need for a more market-facing and competitive pay construct that still supports prudent risk management. The Board remains very aware of the importance of recognising good performance and the need to attract and retain highly talented colleagues.

Greater performance-related pay results in expected compensation rising, with the increase being phased over two years given this is a significant change. For 2022, the first year of the Policy, expected compensation rose 10% for the CEO and 4% for the CFO. A further increase for performance year 2023, the second year of the transition, will result in NatWest Group moving closer to, but still below, the average expected compensation levels paid by other major UK banks.

Strategic KPIs in annual bonus awards for 2022	Further information
Financial (60%)	The performance assessment against the bonus targets for 2022 is summarised on page 128 and set out in full on page 139. Details of how performance was considered for the 2022 RSP awards can be found on page 143.
Return on Tangible Equity	
Income growth	
Cost reduction	
Medium-term capital target	
Strategic[1] (35%)	
Climate	
Customer	
Purpose, culture and people	
Enterprise and capability	
Personal (5%)	
CEO and CFO performance	

(1) ESG priorities are incentivised through the Climate, Purpose, culture and people, and Enterprise and capability elements of the scorecard.

A risk modifier also applies, enabling risk performance to be assessed and awards reduced, potentially to zero.

Remuneration outcomes for 2022

2022 was a strong year for the business and these results were directly reflected in remuneration outcomes. In the first year of the Policy, maximum bonus awards were limited to 85% of salary and RSP awards were limited to 125% of salary. The assessment of performance against the scorecard resulted in proposed awards for the CEO and CFO of 67.76% and 64.26% of maximum opportunity respectively. The committee considered this to be a fair reflection of an impressive performance, noting that the majority of targets were met or exceeded. While people and culture scores had deteriorated slightly, this was expected in the current macro environment and scores remain very strong compared to market norms.

The committee also approved that RSP awards would be granted at maximum as satisfactory performance had been

achieved over the year prior to award. The vesting of the RSP awards will be subject to assessment against pre-determined criteria that take into account whether sustainable performance has been delivered over the three years after grant.

Long-term incentive (LTI) awards granted in 2020

LTI awards were granted to both executive directors in March 2020. Prior to the awards being granted to the CEO and CFO, reductions of 22% and 27% respectively were applied to the maximum award as a result of the pre-grant performance assessment over 2019. In December 2022, we considered whether anything had come to light since the grant which would change our original view of performance.

The outcome of the pre-vest assessment was that there had been no material deterioration in financial, customer, risk and culture performance since grant. Therefore, a sustainable level of performance had been achieved and no further adjustments were necessary under the pre-vest test.

2020 LTI shares	Maximum	Granted	Due to vest
Alison Rose	1,131,488	881,679	881,679
Katie Murray	881,679	646,565	646,565

The awards were granted at a time when the true impact of COVID-19 was just beginning to emerge. The committee has considered whether the vesting of these awards could result in a potential windfall gain. Using the methodology that we disclosed in our 2020 Directors' remuneration report, we looked at a range of factors including the LTI grant price against pre COVID-19 levels, the relative share price performance of NatWest Group and waivers and reductions applied to the executive directors' pay in the pre-vest period. The committee was satisfied that, taking all the relevant circumstances into account, no further adjustment for windfall gains was required. Further details on the performance and windfall gains assessment can be found on page 142.

Implementation of the Policy for 2023

In December 2022, we also approved salary increases for the executive directors at 3%, which is less than half of the average salary increase for the global workforce at 6.4%. The increases will apply from April 2023. As the transition period for the Policy has now ended, the maximum bonus opportunity for executive directors in 2023 will be 100% of salary and maximum RSP awards will be 150% of salary. The committee reviewed the 2023 performance measures for annual bonus awards and the underpin criteria for RSP awards, as detailed later in this report, which continue to align with our purpose-led strategy.

Looking ahead

How we reward and support colleagues will remain under the spotlight for some time, given the macroeconomic headwinds and competitive market for the best talent. We will continue to monitor the impact of the cost-of-living crisis on the workforce and look to balance the needs of all our stakeholders through our oversight of performance and remuneration. Our approach is founded on rewarding colleagues in a fair, sustainable and transparent way.

With this in mind, and to support the refreshed strategy announced in February 2023 and new financial plan, the committee has approved a new Sharing in Success scheme to award colleagues NatWest Group shares. The scheme is intended to recognise one bank behaviours, drive a performance culture with purpose-led outcomes and further align colleagues with our strategic direction.

Since 2017, all A grade and most B grade junior colleagues have received fixed pay only which provides protection from pay volatility. As our performance has improved, it feels like the right time to recognise the contribution of all colleagues to the bank's success. The scheme will be a welcome addition to our employee value proposition, alongside broader policy enhancements, which will help in light of market competition for talent.

Subject to performance criteria being met over 2023, the first awards will be delivered to colleagues in NatWest Group shares in 2024. Awards will have a maximum value of £1,500 per colleague (adjusted for local salary levels). All colleagues will be eligible under the scheme.

From my recent meetings with shareholders, I know that aligning ESG measures with executive directors' remuneration remains a priority area. It is vital that we deliver on our climate and broader societal ambitions. We will continue to use ESG performance metrics for variable pay that are demanding, quantifiable and clearly linked to our strategy.

We also discussed the UK Government's proposal to remove the bonus cap for UK banks, which is currently subject to consultation. The cap limits variable pay to no more than two times the level of fixed pay. NatWest Group has operated within a one-to-one ratio of variable to fixed pay since the regulations came into force in 2014.

The proposal is that, from performance year 2024, it will be up to UK banks to set an appropriate ratio between the fixed and variable components of total remuneration. Over the next year, we will assess any impact for NatWest Group and confirm details in our next report. Importantly, the strict rules relating to deferral, delivery in shares, and malus and clawback will all remain in place.

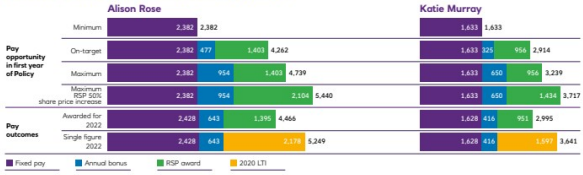
I hope this letter and the information that follows will explain our approach to remuneration for 2022. I am very grateful for the support received from our stakeholders during this process and would also like to thank my fellow committee members for their valuable contribution.

Lena Wilson, CBE

Chair of the Group Performance
and Remuneration Committee
16 February 2023

Remuneration at a glance

Executive director remuneration outcomes (£000's)



(1) The charts above show pay opportunity for the first year of the Policy together with two pay outcomes for 2022. On-target opportunity is based on annual bonus awards at 50% of maximum and RSP awards vesting at 100% of maximum. The maximum opportunity is also shown together with the impact of a 50% increase in the share price for RSP awards over the period from grant to vest, in line with disclosure requirements.

(2) The fixed pay awarded differs slightly from that under the Policy opportunity for 2022 due to salary increases applying part way through the year and the inclusion of some benefits where the amounts are not known until year end. Full details of benefits paid for 2022 can be found in the single figure table later in this report. The maximum bonus and RSP outcomes are based on salary earned during the year, which is slightly lower than the Policy opportunity due to the salary change applying part way through the year.

Pay awarded to the executive directors for 2022, including fixed pay, annual bonus and RSP is broadly in line with that expected under the first year of the Policy, with strong performance resulting in above target annual bonus outcomes. The single figure of remuneration, as set out on page 138, includes fixed pay and annual bonus for 2022 along with the estimated vesting value of the LTI award granted in 2020 under the previous Policy. Therefore it is a combination of the new and the old Policy.

Annual bonus scorecard outcome for 2022

	Annual bonus measures	Overall Weighting	Minimum / On target / Maximum	Weighted outcome
Financial (60%)	Go-forward group return measure	30%		26.44%
	Underlying income growth	10%		9.21%
	Cost reduction	10%		4.74%
	CET1 ratio post distributions	10%		5.00%
Strategic (35%)	Reduction in carbon emissions vs 2019 baseline	2%		2.00%
	Climate and sustainable finance in 2022	4%		4.00%
	Publish initial Climate transition plan	4%		2.00%
	Customer scores	10%		5.25%
	Purpose score	3.33%		1.53%
	Culture score	3.33%		1.53%
	Percentage of females in top three layers	1.67%		0.84%
	Percentage of colleagues from ethnic minority backgrounds in top four layers	1.67%		0.62%
	Supporting diverse enterprise	1.25%		1.10%
	Encouraging youth participation in enterprise	1.25%		1.25%
	Encouraging customers to save at least £100	1.25%		0.00%
	Financial capability interactions delivered	1.25%		1.25%
Personal (5%)	Discretionary assessment at year end for both executive directors	5%	Strong contribution by the CFO was fully recognised in the scorecard outcomes above. Progress by the CEO on One Bank transformation, UBIDAC exit, the Commercial & Institutional segment, the climate agenda and strengthening relationships with external stakeholders led to 4.0% outcome under the CEO's personal measures.	4.0% (CEO) 0% (CFO)(1)
Risk modifier	Downward risk modifier of **3%** applied for the CEO and **2.5%** for the CFO to reflect risk performance against core goals, balanced by strong leadership behaviour		**Total scorecard** outcome post risk modifier	**67.76% (CEO)** **64.26% (CFO)**

(1) The CFO delivered strong performance against the targets set for the year, as reflected in the core scorecard outcome. For the personal measures, the committee considered that the key areas of strength were appropriately reflected in the financial and strategic outcomes above and opted not to make any additional award to the CFO for 2022.

RSP pre-grant performance assessment for 2022

Basis of assessment

RSP awards are granted provided performance has been satisfactory, based on our internal performance management ratings scale (1-5). A rating of three or above will normally result in the RSP award being granted at maximum. Awards are delivered in shares to align with long-term performance and shareholders.

Outcome of pre-grant assessment

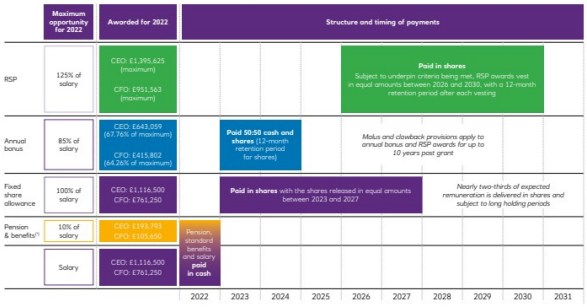
The CEO and CFO received ratings of four and three respectively for 2022, meaning performance goals were fully achieved or exceeded and behaviours were demonstrated at the required level. All regulatory responsibilities were also met. As a result, RSP awards to be granted at maximum.

RSP awards to be granted in 2023

CEO – 125% of salary
CFO – 125% of salary

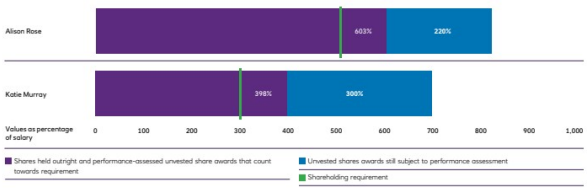
Awards will vest in 2026 subject to performance against underpin criteria over the three-year period. See page 143 for further details of the pre-grant and pre-vest performance assessments.

Payments for 2022 will be delivered over eight years



(*) Pension aligned with wider workforce rate at 10% of salary. Value shown also includes standard benefit funding as well as benefits detailed in the single figure of remuneration table.

Shareholding requirements for executive directors as at 31 December 2022



Wider workforce remuneration

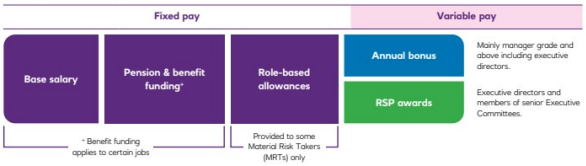
How we align wider workforce and executive directors' remuneration

We have invested significantly in colleague[1] pay throughout 2022, together with material salary increases and a one-off payment in 2023 to help large parts of the workforce with the cost-of-living crisis. Most of this investment is targeted towards our more junior roles as part of our commitment to deliver fair levels of pay throughout the organisation.

The remuneration policy supports a culture where individuals are rewarded for sustained performance and demonstrating the right behaviours. The same principles apply to everyone, adjusted to comply with local requirements. The principles are designed to:

1. **support a performance culture** – we recognise colleagues' skills and experience, the responsibilities of their job and their geographic location. Ultimately, we pay for performance, underpinned by a robust performance management process;
2. **be market facing** – we benchmark ourselves against peers and ensure our pay is fair, competitive and affordable; and
3. **ensure compliance and governance** – our reward design must be within policy, meet the expectations and requirements of our regulators and be appropriately aligned with the expectations of our shareholders and customers.

All colleagues	Certain colleagues depending on location, grade or job			Senior executives only
Base salary and pension funding	Benefits and share plans	Role-based allowances	Annual bonus	RSP awards
A competitive level of salary paid in cash and reviewed annually. Set to reflect the talents, skills and competencies that the individual brings to the business. Additional funding is provided which colleagues can use to save in a company pension scheme. UK colleagues receive pension funding at 10% of base salary, the same rate as executive directors. Rates in other locations reflect local market practice.	Some colleagues receive funding which they can use towards the cost of benefits or take as cash. Benefits offered include private medical cover, dental cover, personal accident insurance, life assurance and critical illness insurance. Individuals in some jurisdictions can also join share plans, providing an efficient way to buy NatWest Group shares and align their interests with our shareholders.	Role-based allowances reflect the skills and experience required for certain jobs. These are part of fixed remuneration for regulatory purposes. They are delivered in cash and/or shares depending on the level of the allowance and the seniority of the recipient. Shares are released in instalments over a minimum three-year period with a five-year period applying to executive directors.	We reward individuals for delivering superior performance in line with risk appetite. The bonus pool is based on a scorecard of measures across our core strategic areas and our purpose. Allocation from the pool depends on the performance of the business area and the individual. Awards are made in cash and/or shares with larger amounts paid out over several years.	Encourages sustainable long-term performance. Awards are delivered entirely in shares to align with shareholders. Checks take place before grant and again after three years to ensure sustained performance has been achieved. Awards are paid out over eight years in total to encourage long-term thinking when making decisions. RSP participants are also subject to shareholding requirements.



As set out on page 127, from 2023 we will launch our new Sharing in Success scheme, to recognise the contribution of all colleagues to our success and the achievement of our purpose-led strategic goals.

Pay for executive directors is aligned with the wider workforce, with two main differences: (i) the use of RSP awards; and (ii) a requirement to maintain a holding of shares in NatWest Group, both during and after employment. These differences are deliberate and recognise that it is in the best interests of our stakeholders for executive directors to have a significant proportion of their remuneration paid in shares and subject to long-term shareholding requirements.

(1) Colleagues means all employees and, in some instances, other members of the wider workforce (including contractors and agency workers).



Our Colleague Listening Strategy

We listen to colleagues and use the insight we gain to attract, engage and retain the talent we need for the future.

Regular engagement

- A colleague opinion survey (Our View) allows people to have a say on what it feels like to work at NatWest Group.
- Over 48,000 (82%) of our colleagues took part in the latest survey, one of our highest response rates in the last 10 years. We also benchmark our performance against financial services and global high performance norms.
- Regular question and answer sessions take place between colleagues and senior executives throughout the year.
- Feedback from colleagues forms part of the purpose, culture and people measures that impact pay.
- We also consult with our employee representative bodies on remuneration at relevant points during the year.

Colleague Advisory Panel (CAP)

The CAP helps us to strengthen the colleague voice in the Boardroom. It allows colleagues to engage directly with senior management and the Board on topics that are important to them. The CAP is chaired by one of our non-executive directors and membership of the panel was refreshed in 2022. It comprises a random selection of 28 colleagues who are self-nominated or part of an employee representative body.

After each meeting, the Board receives a summary and a follow-up call is held so that members can hear how their views were shared and what happened as a result. The forum continues to be highly regarded by those who attend and has proven to be an effective way of establishing two-way dialogue between colleagues and Board members.

In May 2022, a meeting was held with members in order to:

- increase the CAP's understanding of our approach to executive pay and its link to our ESG priorities and our purpose; and
- gather the CAP's views on our approach to wider workforce and executive remuneration.

Members asked thoughtful questions on a wide range of pay-related matters. There was a discussion on the new Policy for executive directors being more aligned to market practice.

The discussion also touched on the merits of increasing executive pay in the context of higher household bills. It was explained that the changes moved remuneration for executive directors closer to, but still below, the average paid by their peers. Members were also reminded that, at a previous session, some had asked whether pay for the CEO was enough. Colleagues are remunerated according to our Fair Pay Charter and consistent reward principles. Across the workforce we take into account the job market, company and individual performance as well as changes in the external environment.

The cost-of-living crisis was, understandably, one of the main themes during the discussion. The CAP acknowledged that the increase in the cost of living was not the bank's sole responsibility but noted that front-line colleagues in particular were feeling the impact. It was confirmed that the issue was high on the Executive Committee's agenda, and action was subsequently taken in September by providing a permanent salary increase for c.22,000 of our lowest-paid colleagues.

Another suggestion from members was that the benefit platform could be reviewed in light of the economic conditions and a number of enhancements were made to the offering in the second half of the year, including reducing the excess payable on some policies.

Wider workforce interventions and support in 2022



Cost-of-living crisis

c.£115 million

annualised spend on fixed pay increases in 2022, which included a further permanent increase in September for around 22,000 of our lowest-paid colleagues.

On top of the investment above, a one-off cash payment was made to c.60,000 colleagues in January 2023 and there will be significant salary increases from April 2023, with broad parts of the UK workforce to receive at least £2,000. The majority of colleagues at our two most junior grades in the UK will receive a salary increase of at least 7% in April 2023 in addition to the £1,000 payment in January. Salary ranges have been increased by 6% or more and the lowest starting salary will rise to £22,000 (pro rata), an uplift of 16% since April 2022.

Financial Wellbeing hub



We have provided colleagues with comprehensive financial wellbeing support including access to pension and protection products as well as colleague discounts, support with budgeting and planning, and help with managing debt and financial abuse.

We upgraded our benefits platform in 2022 and negotiated a reduction on the excess payable on some insurance products.

Dedicated learning and volunteering days



We give all colleagues two days each year so they can develop their skills, be future ready and have opportunities to progress. 96% of colleagues have accessed the NatWest Group Academy since its launch.

Colleagues also receive three volunteering days each year, an opportunity for them to help causes they care about and support local communities.



Fair Pay

Accredited Living Wage

employer in the UK since 2014 and we set our pay levels above the real living wage (RLW) rates. We take a similar approach across our major hubs outside the UK.

Following the early announcement of the new RLW rates in 2022, we agreed to immediately increase pay for our colleagues and relevant suppliers.

Employee Value Proposition

New partner leave and menopause support

We offer a market-leading approach to partner leave, increasing the time that partners can spend with their new child. The policies introduce the same pay and leave entitlements as local Maternity and Adoption Leave policies for eligible fathers and partners to share the caring responsibilities.

This ultimately champions the potential of both parents and promotes gender equality in the workplace.

The menopause is such an important topic and, working with Peppy Health, we launched a brand new digital product providing colleagues and their partners with online support and access to specialist clinicians. Over 1,000 of our colleagues downloaded the app within the first few weeks.





Mental Health

We were delighted to partner with Just Ask A Question (JAAQ), a new mental health and wellbeing social media platform that will allow us to speak with colleagues in a new way.

How the committee oversees wider workforce remuneration

Each year, the committee:

Approves the **remuneration policy principles**, which are applied consistently across NatWest Group, and reviews the policy's implementation. The committee is supported by Subsidiary Performance and Remuneration Committees which review whether the policies and practices are appropriate at the respective legal entity level.

Considers a report on **how pay has been distributed** across the workforce during the year. The report includes analysis of performance ratings by grade and diversity categories and there are checks in place to ensure that decisions are made fairly.

Reviews and **approves share plan offerings** for colleagues. In 2022, Sharesave was offered in the UK, Poland and India, encouraging colleagues to think about their financial wellbeing with an option to buy NatWest Group shares.

Reviews the **annual spend on fixed pay** (approximately half of the workforce receive fixed pay only). We have targeted recent increases towards our most junior colleagues, areas where specialist skills are required leading to high attrition rates and those lowest in their salary range.

Approves the bonus pool for bonus-eligible colleagues across the wider workforce. The bonus pool is determined after considering performance against a balanced scorecard of strategically-important measures.

Aligning remuneration with our culture

In determining performance outcomes, we consider both the achievements made and how they have been delivered. Our Code of Conduct sets out clear expectations of appropriate behavioural standards, supported by Our Values which guide colleagues in doing the right thing. In 2022, over 11,000 colleagues, customers and community partners helped to co-create our refreshed values to reflect our purpose.

Each role has defined behaviours set out in our Critical People Capabilities which directly link to our purpose and values and are used in performance management. If a colleague's behaviour falls below these expectations, this will be reflected in their performance rating, fixed pay progression and variable pay decisions (where their role is eligible to receive variable pay). The governance of culture is clearly laid out with specific senior manager roles having defined accountabilities which are reflected in their performance and pay decisions.

Creating a diverse, equitable and inclusive workplace is integral to fulfilling our purpose. It enables us to work together to achieve great things with our colleagues, communities and customers. Performance measures to support progress in this area affect the pay of executive directors, senior management and other bonus-eligible colleagues.

We have a target to have full gender balance in our CEO-3 and above global roles by 2030. At 31 December 2022, we had, on aggregate, 41% women in our top three layers[1], an increase of 3% since 31 December 2021. This represents an increase of 12% since targets were introduced in 2015.

Introduced in 2018, our ethnicity target is to have 14% of colleagues from an ethnic minority background in CEO-4 and above positions in the UK by 2025. At 31 December 2022, of 82% of colleagues who disclosed their ethnicity, we have an aggregate 11% of colleagues from an ethnic minority background in our CEO-4 and above positions. This represents a 3% increase since targets were introduced and remains consistent from 2021.

Pay equality, including neutrality in respect of protected characteristics such as sex and race is a core feature of our approach, to support equal pay for equal work.

Further information on our workforce approach

You can find the latest gender and ethnicity pay gap reporting for NatWest Group together with the steps being taken to address the position in the 'Diversity, equity and inclusion' section of the Strategic Report and at natwestgroup.com. You can also find the CEO-to-employee pay ratios for 2022 later in this report.

The 'Our Colleagues' section of the Strategic report and our ESG Disclosures Report on natwestgroup.com set out further information on how we are helping colleagues to thrive and realise their potential, including providing fair pay, supporting their learning and wellbeing, and creating a diverse, equitable and inclusive culture.

(1) See footnote (7) on page 140 for further information.

Summary of the Policy for executive directors

The Policy was approved by shareholders at the AGM on 28 April 2022 and will apply until the 2025 AGM unless changes are required. There are no changes requiring shareholder approval at this time. A summary of the Policy is set out below together with how the Policy supports alignment with Provision 40 of the UK Corporate Governance Code (the Code). The full Policy can be found under the Governance section of natwestgroup.com.

Purpose and link to strategy	Operation	Maximum opportunity	Alignment with the Code
Base salary Providing fair levels of base salary supports the recruitment and retention of high-calibre executives to develop and deliver strategic priorities.	Base salary is paid monthly in cash and reviewed annually. Rates are determined based on the individual's role, skills and experience and are benchmarked against market and peer practice. Salaries will be increased by 3% from 1 April 2023. See the implementation of the Policy for 2023 on page 145 for details.	Any salary increases will not normally be greater than the average salary increase for NatWest Group employees over the period of the Policy. Other than in exceptional circumstances, an executive director's salary will not increase by more than 15% over the course of the Policy.	**Risk** Base salary is set at a competitive level which means there is less reliance on variable pay. This helps to discourage excessive risk-taking. **Alignment with culture** Base salary increases generally aligned to, or lower than, the average increase for the wider UK workforce.
Fixed share allowance Additional fixed pay that reflects the skills and experience required as well as the complexities and responsibilities of the role.	A fixed allowance paid entirely in shares. Individuals receive shares that vest immediately subject to any deductions for tax purposes. Shares are released on a pro-rata basis over five years from the date of each award. The directors are entitled to any dividends paid on the shares.	An award of shares with an annual value of up to 100% of base salary at the time of award.	**Risk** The fixed share allowance further supports the delivery of a balanced remuneration policy, with a suitable mix of fixed and variable pay, as well as creating alignment with the experience of shareholders, given it is paid entirely in shares.
Benefits Providing a range of flexible and market competitive benefits that colleagues value and that help them carry out their duties effectively.	Executive directors can select from a range of standard benefits including a company car, private medical cover, life assurance and critical illness insurance. Travel assistance is provided in connection with company business, including the use of a car and driver. Security arrangements may be put in place where that is deemed appropriate. NatWest Group will meet the cost of any tax due on these benefits.	A set level of funding for standard benefits (currently £26,250 per annum). We disclose the total value of benefits provided each year in the Annual remuneration report. The maximum value of benefits will depend on the type of benefit and the cost of providing it, which will vary according to market rates.	**Proportionality** A competitive benefits offering, which can be tailored to individual circumstances, together with broader support for executive directors to assist them in carrying out their duties.
Pension Encouraging planning for retirement and long-term savings.	A monthly pension allowance paid in cash, based on a percentage of salary. Recipients have the opportunity to use the cash to participate in a defined contribution pension scheme. CEO – 10% of base salary CFO – 10% of base salary	The pension allowance rate is the same as that applicable to the vast majority of the UK workforce (currently 10% of base salary).	**Alignment with culture** Reflecting best practice under the Code, pension rates for executive directors are aligned with the rate offered to the wider workforce.

Purpose and link to strategy	Operation	Maximum opportunity	Alignment with the Code
Annual bonus Supporting a culture where individuals are rewarded for the delivery of superior performance, with measures and targets reflecting NatWest Group's strategic priorities and purpose. Performance is assessed based on a range of financial and non-financial measures that encourage long-term value creation. Awards are subject to malus and clawback adjustments to support long-term decision-making.	• financial measures account for between 50% and 60% of the annual bonus opportunity. • non-financial measures account for at least 30% and personal measures may be used up to a maximum of 10% of the scorecard. • awards will be delivered 50% in shares and 50% in cash. • awards will be deferred in combination with RSP awards to meet regulatory requirements. • a post-vesting retention period will apply to the amount delivered in shares (currently 12 months). • malus provisions apply prior to vesting and clawback applies for seven (and potentially up to ten) years from the date of award.	Bonus awards will be granted up to a maximum value of 100% of base salary. The value of awards can also reflect a discount for long-term deferral, in line with regulatory guidelines. The level of the award can vary between 10% for threshold performance and 100% for maximum performance. Target performance will pay out at 50% of maximum. You can find the proposed performance measures and weightings for the 2023 financial year on page 149.	**Clarity** There is clarity on how performance will be assessed and the expected behaviours. We provide transparency through detailed disclosure and engage with shareholders as well as the workforce on our approach to executive pay. **Simplicity** Most of the remuneration for executive directors is share-based and subject to deferral and retention requirements, which creates simple and significant alignment with our shareholders. **Risk** We take risk into account at various stages of the performance assessment process, with underpins and malus and clawback provisions to adjust awards if necessary. **Predictability** Scenarios of the possible rewards to executive directors under the Policy for 2022 are set out on page 128. RSP award levels are intended to be more predictable and linked to long-term performance, helping to support prudent risk management. **Proportionality** Variable pay cannot be awarded above the level of fixed pay. We believe this is a restrained and proportionate approach to executive remuneration. **Alignment to culture** Variable pay is subject to the delivery of sustainable performance and progress against our purpose-led strategic goals. Payments are made over many years to encourage long-term thinking. Shareholding requirements further align the interests of executive directors with the returns to shareholders.
RSP awards Supporting sustainable performance over a multi-year period. Awards are delivered entirely in shares over many years to create simple and effective alignment with shareholders over the long term. Malus and clawback provisions discourage excessive risk-taking and other inappropriate behaviours.	• an award will be granted provided performance has been satisfactory over the prior year. • after three years, performance will be assessed against pre-determined underpin criteria. • awards will vest in combination with annual bonus awards to meet regulatory requirements for deferral (currently between three to seven years after grant). • a post-vesting retention period will apply (currently 12 months). • malus provisions apply prior to vesting and clawback applies for seven (and potentially up to ten) years from the date of award. • the number of shares for RSP and bonus awards may be calculated using a price that is discounted to reflect the absence of the right to receive dividends or dividend equivalents during the vesting period.	RSP awards will be granted up to a maximum value of 150% of base salary. The value of awards can also reflect a discount for long-term deferral, in line with regulatory guidelines. Subject to the underpin criteria, the vesting level of RSP awards can vary between 0% and 100% of the original number of shares granted. The expected vesting level is 100% of maximum with safeguards in place to ensure no payments for failure. See page 146 for further information on RSP awards to be granted for the 2023 financial year.	
Shareholding requirements Executive directors must build and continue to hold a significant shareholding both during and after employment.	Shares and unvested awards count on a net-of-tax basis towards the requirement once any performance assessment has taken place. On leaving, shares must be held for a period of two years and procedures are in place to enforce the requirement.	CEO – 500% of salary. CFO – 300% of salary.	

Remuneration for the Chairman and non-executive directors

Purpose and link to strategy	Operation	Maximum opportunity
Fees Competitive fees that reflect the skills, experience and time commitment required for the role. Fees are set at an appropriate level to attract individuals with the attributes needed to oversee the Board's strategy.	Fees can be paid in cash, shares or a combination of the two. From 2023, a portion of fees will be used to purchase shares under a new shareholding policy for the Chairman and the non-executive directors. Further details are set out as part of the Policy implementation on page 147. The level of fees is reviewed regularly. Additional fees may be paid for new Board Committees provided these are not greater than fees payable for the existing Board Committees. No variable pay is provided so that the Chairman and non-executive directors can maintain appropriate independence.	The rates for the year ahead are set out in the Annual remuneration report. Any increases to fees will not normally be greater than the average inflation rate or salary increases for the wider workforce. Other than in exceptional circumstances, fees will not increase by more than 15% over the course of the Policy.
Benefits Providing a level of benefits in line with market practice.	The Chairman and non-executive directors are entitled to travel assistance in connection with company business including the use of a car and driver. NatWest Group will meet the cost of any tax due on the benefit. Other benefits may be offered in line with market practice. The Chairman is entitled to private medical cover and life insurance cover provided the Board considers the costs to be reasonable.	The value of the private medical and life insurance cover for the Chairman, as well as other benefits, will be in line with market rates and disclosed in the Annual remuneration report.

Other policy elements for Directors

Element	Operation
Recruitment policy	When recruiting new directors, the Policy aims to be competitive and to structure pay in line with the framework applicable to current directors, recognising that some adjustment to quantum may be necessary to secure the preferred candidate. A buy-out policy exists to replace awards forfeited or payments foregone, which is in line with regulatory requirements.
Notice and termination provisions	Under service contracts, NatWest Group or the executive director is required to give 12 months' notice to the other party to terminate the employment. There is discretion for NatWest Group to make a payment in lieu of notice (based on salary only). The Chairman and the non-executive directors do not have notice periods and no compensation will be paid in the event of termination, other than standard payments for the period served up to the termination date. Non-executive directors have letters of appointment instead of service contracts and are appointed for three years initially. At the end of this term, a further three-year term may be agreed, and non-executive directors may be invited to serve beyond six years, up to a maximum tenure of nine years. The Chairman is subject to the Code's requirements relating to the maximum tenure period for chairs. All directors stand for annual election or re-election by shareholders at the AGM. **Effective dates of appointment for directors:** Howard Davies – 14 July 2015 Frank Dangeard – 16 May 2016 Morten Friis – 10 April 2014[1] Mark Seligman – 1 April 2017 Alison Rose – 1 November 2019 Raisin Donnelly – 1 October 2022 Yasmin Jetha – 21 June 2017 Lena Wilson – 1 January 2018 Katie Murray – 1 January 2019 Patrick Flynn – 1 June 2018 Stuart Lewis – 1 April 2023
Treatment of outstanding share plan awards on termination	On termination, we will treat awards in accordance with the relevant plan rules or other terms on which they were granted. Any deferred annual bonus awards that are unvested will normally lapse on leaving unless good-leaver circumstances apply, in which case the awards will normally continue to vest on the original vesting dates. In good-leaver circumstances, individuals will be eligible to be considered for an annual bonus award for their final year of employment. RSP awards that are unvested will normally lapse on leaving unless specified good-leaver circumstances apply. For good leavers, awards are pro-rated for time served during the three-year performance period and will normally continue to vest on the original vesting dates. Individuals will not be eligible to be considered for an RSP award for the final year of employment.

(1) As explained in the Corporate governance report, the Board confirmed that Morten Friis should continue to serve on the Board and be considered as an independent non-executive director until he steps down on 31 July 2023, notwithstanding that he will have served nine years and four months on the Board by that point.

Environmental, Social and Governance (ESG) priorities



There is clear alignment between our ESG priorities and the pay outcomes for executive directors. People targets have featured in our strategic scorecard for over ten years, evolving beyond employee engagement to incorporate purpose, culture and diversity targets. Playing an active role in the transition to a low-carbon economy is a core part of our purpose and climate targets have been part of our executive director scorecard since 2020. There are also targets to build financial capability and support equality of opportunity through diverse enterprise.

In a number of areas our ESG ambitions stretch over several years. However, we are clear on the specific measures and targets set for each year and publish these externally. The committee and the Board reviews and approves these annually to align with our latest strategic focus areas. You can find further information on how executive director performance measures align with the five principles of a purpose-led business in our ESG Disclosures Report, available on natwestgroup.com.

Turning to the wider workforce, the annual bonus pool is based on a balanced scorecard of measures which includes climate, enterprise, financial capability, purpose, culture and people measures, broadly aligning with the position for the executive directors. Allocation from the pool depends on the performance of the business area and the individual. This helps to provide a consistent approach to ESG performance and its impact on variable pay throughout the organisation.

Shareholder engagement outcomes

Every year we undertake an engagement programme with major shareholders and other stakeholders before the committee makes its final decisions on pay awards. In late 2022, we met with a number of our institutional shareholders, UK Government Investments, proxy advisors and the UK regulators to discuss our approach to remuneration for the year.

The meetings were generally positive with the committee Chair explaining our pay philosophy and no material concerns being raised. Wider workforce initiatives was the predominant issue raised, with investors and the proxy advisors interested to hear how the cost-of-living crisis was expected to impact NatWest Group's approach to executive and wider workforce pay. The committee Chair explained the steps being taken to support the workforce at this time and confirmed that the Board takes wider workforce engagement very seriously.

Other recurring topics in meetings included our treatment of potential windfall gains, the measurement of bonus pool financial performance, the use of ESG metrics in remuneration and the retention and recruitment of talent. Investors also continued to stress the importance of clear disclosures to assist their view of our approach to pay.

In addition, we held two virtual shareholder events with retail shareholders in 2022 in order to hear from the wider shareholder base. During the events, shareholders raised questions on staff retention, our response to the impact of the cost-of-living crisis on our colleagues and the increase in remuneration for the CEO under the new Policy. We are very grateful that our stakeholders continue to take the time to engage with us in an open and constructive way.

Adjusting remuneration in light of new information

An accountability review process allows NatWest Group to respond where new information would change our variable pay decisions made in previous years and/or the decisions to be made in the current year. The process seeks to identify material risk management issues, control weaknesses, policy breaches and conduct failings, and enables commensurate ex-post risk adjustments to be applied to variable pay.

Malus provisions allow us to reduce the amount of any unvested variable pay awards, potentially to zero, prior to payment. Clawback can be used to recover variable pay awards that have already vested and we can also apply in-year bonus reductions to adjust variable pay that would have otherwise been awarded for the current year.

The circumstances in which we may make adjustments include:

- conduct which results in significant financial losses for NatWest Group;
- an individual failing to meet appropriate standards of fitness and propriety;
- an individual's misbehaviour or material error;
- NatWest Group or the individual's business unit suffering a material failure of risk management; and
- for malus and in-year bonus reduction only, circumstances where there has been a material downturn in financial performance.

This list is not exhaustive and further circumstances may be considered where appropriate.

Annual remuneration report

Single total figure of remuneration for executive directors for 2022 (audited)

	Alison Rose		Katie Murray	
	2022 £000	2021 £000	2022 £000	2021 £000
Base salary	1,117	1,100	761	750
Fixed share allowance[1]	1,117	1,100	761	750
Benefits[2]	82	81	30	30
Pension[3]	112	110	76	75
Total fixed remuneration	**2,428**	2,391	**1,628**	1,605
Annual bonus[4]	643	n/a	416	n/a
Long-term incentive award[5]	2,178	1,197	1,597	–
Total variable remuneration	**2,821**	1,197	**2,013**	–
Total remuneration[6]	**5,249**	3,588	**3,641**	1,605

(1) The fixed share allowance is based on 100% of salary and, as part of fixed remuneration, is not subject to any performance conditions.

(2) Includes standard benefit funding at £26,250 per annum. In addition, Ms Rose received travel assistance in connection with company business (£39,542) and assistance with home security (£16,351) for 2022. Ms Murray also received assistance with home security arrangements (£3,275) for 2022.

(3) The executive directors receive a monthly cash allowance and can choose to participate in the company's defined contribution pension arrangements.

(4) Annual bonus awards were introduced as part of the Policy approved by shareholders at the 2022 AGM. In determining bonus awards for 2022, the committee assessed performance against financial, strategic and personal measures as set out below and on the next page.

(5) The 2022 value relates to LTI awards granted in 2020. The committee assessed performance prior to vesting and also considered whether the outcome could represent a windfall gain, as set out on pages 142 to 144. No discretion was exercised as a result of the share price changing over the performance period.

(6) The increase in total remuneration for the CEO compared to 2021 is primarily driven by the inclusion of annual bonus, in line with the Policy, and a higher estimated vesting value of the LTI award compared to last year. The CFO has annual bonus and the vesting of an LTI award included for the first time with no equivalent variable pay awards in 2021.

Annual bonus performance assessment for 2022

The committee considered performance against financial and strategic non-financial measures set to reflect our purpose-led strategy as well as personal performance by the executive directors. Bonus awards are expected to be made at 50% of maximum provided that target performance has been achieved. The outcome of the assessment against the measures and targets under the bonus scorecard is set out in full on the next page.

The committee noted that the CEO had performed strongly over the year, which was evident from the bonus scorecard and supported by other factors including positive share price movement and broker recommendations, indicating market confidence in management's actions. NatWest Group had remained open for mortgage business despite market volatility and the CEO had continued to build a strong team in a difficult hiring environment as well as implementing well-judged cost-of-living initiatives. In terms of personal measures, the committee recognised good progress on One Bank transformation, the exit of UBIDAC, standing up the new Commercial & Institutional business segment, supporting the climate agenda and cementing relationships with our key partners.

The CFO was also considered to have delivered good overall performance with strong engagement with investors throughout the year and her continued contribution to the long-term strategy and our investment cycle through to 2028. The committee noted that good progress had been made on the Finance transformation programme as well as succession planning and building bench strength. There had also been significant progress with our climate and purpose reporting framework.

The bonus scorecard takes into account the context in which performance was delivered. In assessing financial performance, a downward adjustment was made for the material changes in the base rate against our assumptions for the year, as explained in the footnotes to the scorecard. The committee also considered a downward risk modifier which enables risk performance to be assessed and awards reduced, potentially to zero. Downward adjustments of 3% were applied for the CEO and 2.5% for the CFO to reflect risk performance against core goals, balanced by strong leadership behaviours. The committee believed the final outcome reflected the considerable achievements by the executive directors through a challenging year and therefore no further discretion was applied to the resulting award levels.

The maximum bonus award under the Policy is set at 100% of base salary, however, in the first year of implementation awards were limited to 85% of the base salary paid during 2022. The final bonus amounts are set out below and awards will be made in early 2023, split equally in cash and shares. Malus and clawback provisions apply to the awards and the shares will be subject to a 12-month retention period.

	Maximum award	Reduction for performance	Final bonus award	Award level % of maximum
Alison Rose	**£949,025**	**£305,966**	**£643,059**	**67.76%**
Katie Murray	**£647,063**	**£231,261**	**£415,802**	**64.26%**

Annual bonus assessment for 2022

Annual bonus measures	Minimum (10% payable)	On target (50% payable)	Maximum (100% payable)	Weighting	Weighted outcome
Financial (60%)					
Go-forward group return measure[1]	6.9%	7.9%	10.9%	30%	26.44%
			Achieved 10.2%		
Underlying income growth excluding notable items of Go-forward group[2]	£11.2 billion	£11.5 billion[3]	£12.4 billion	10%	9.21%
		Achieved £12.3 billion			
Cost reduction based on Go-forward group operating expenses, excluding litigation and conduct costs	2%	3%	4%	10%	4.74%
		Achieved 2.9%			
Progress to medium-term capital target based on CET1 ratio post distributions[4]	n/a	14%	n/a	10%	5.00%
		Achieved 14.2%			
Strategic (35%)					
Progress towards halving emissions by 2025, reduction in carbon emissions vs 2019 baseline	≥38%	40%	≥44%	2%	2.00%
			Achieved above 44%		
Funding and financing committed to Climate and Sustainable Finance	£16.62 billion	£17.5 billion	£19.25 billion	4%	4.00%
			Achieved £24.5 billion		
Develop and publish initial Climate transition plan with 2022 results[5]		Achievement of goal		4%	2.00%
	Published on time				
Customer scores based on an aggregated view of NPS and Customer Touchpoint Rating[6]		Met targets on average[6]		10%	5.25%
	Target slightly exceeded				
Purpose score (Our View)	80	90	≥92	3.33%	1.53%
	Achieved 89				
Culture score (Our View)	73	83	≥85	3.33%	1.53%
	Achieved 82				
Percentage of females in the top three layers of the organisation (globally)[7]	36%	41%	≥43%	1.67%	0.84%
	Achieved 41%				
Percentage of colleagues from ethnic minority backgrounds in the top four layers (UK)[7]	9%	12%	≥14%	1.67%	0.62%
	Achieved 11%				
Supporting diverse enterprise[8]		Support 35,000 businesses through enterprise programmes with 250,000 customer interactions		1.25%	1.10%
	53,000 businesses supported, 269,000 customer interactions				
Number of young adults engaged in enterprise and entrepreneurship activity	28,500	30,000	33,000	1.25%	1.25%
			Achieved 48,000		
Number of customers who, having never saved with us, or having saved less than £100, have now saved £100	503,500	530,000	583,000	1.25%	0.00%
	Achieved 477,000				
Number of financial capability interactions delivered[9]	3.8 million	4 million	4.4 million	1.25%	1.25%
			Achieved 5.1 million		
Personal measures (5%)					
Discretionary assessment at year end for both executive directors	Strong contribution by the CFO was fully recognised in the scorecard outcomes above. Progress by the CEO on One Bank transformation, UBIDAC exit, the stand up of the Commercial & Institutional segment, personal leadership on the climate agenda and strengthening relationships with external stakeholders led to 4.0% outcome under the CEO's personal measures.			5%	4.0% (CEO) 0% (CFO)[*]
Downward risk modifier					**67.76%**
Downward risk modifier of 3% applied for the CEO and 2.5% for the CFO to reflect risk performance against core goals, balanced by strong leadership behaviour				**Final outcome post risk modifier**	(CEO) **64.26%** (CFO)

(*) The CFO delivered strong performance against the targets set for the year, as reflected in the core scorecard outcome. For the personal measures, the committee considered that the key areas of strength were appropriately reflected in the financial and strategic outcomes above and opted not to make any additional award to the CFO for 2022.

The reconciliation to the reported figures and footnotes for the table above are set out on the next page.

Performance achieved in 2022

Reconciliation to reported figures and footnotes

	Amount	Go-forward group return measure	Go-forward income excluding notable items
Reported figure		16.9%	£13.1 billion
Base rate adjustment	£0.8 billion[10]	(2.3%)	(£0.8 billion)
Gains from interest and FX risk management derivatives not in accounting hedge relationships/own credit adjustments/profit from insurance liabilities	£0.5 billion[10]	(1.4%)	
Timing of FX and conduct losses	£0.4 billion[10]	(1.3%)	
Deferred tax asset and tax rate	£0.4 billion	(1.7%)	
Figures used in bonus scorecard		10.2%	£12.3 billion

(1) For the purpose of assessment under the bonus scorecard, the Go-forward group return measure adjusts the published Go-forward group RoTE to exclude material factors outside of management's control. Items will only be adjusted if this results in an impact of at least 0.25% to the RoTE figure. For performance year 2022, these include:
   a. Material changes in base rate from that assumed at the beginning of the year;
   b. Gains from interest and FX risk management derivatives not in accounting hedge relationships, own credit adjustments, profit from insurance liabilities and the timing of FX and litigation and conduct charges; and
   c. Deferred tax asset and effective tax rate changes.

(2) Similarly, for income, the definition for the purpose of the scorecard excludes the material changes in base rate from that assumed at the beginning of the year. No adjustments are required to the reported figure for gains from interest and FX risk management derivatives not in accounting hedge relationships, own credit adjustments, profit from insurance liabilities and FX losses as notable items are already excluded from the definition of the reported figure.

(3) On-target income has been set at £11.5 billion, in line with the 'above £11.0 billion' market guidance issued at the beginning of 2022.

(4) Capital has been assessed on a qualitative basis against the range.

(5) The initial Climate transition plan was deemed 'on target' performance as it has been published although work will continue on the plan.

(6) As NPS is not available for NatWest Markets, an internal Customer Touchpoint Rating is applied to assess NatWest Markets' customer performance. The aggregated view reflects the contribution of each franchise to NatWest Group's income. Targets: NatWest Retail Banking NPS 14 or be 2nd or better; NatWest Premier Banking NPS 19; Coutts NPS 48; NatWest Business Banking NPS 0 and be 3rd or better; NatWest Commercial & Corporate Banking NPS 24 and 1st; RBS International NPS 33; NatWest Markets Customer Touchpoint Rating 70. We met or exceeded 5 out of the 7 customer goals set for 2022. The weighted average rating across these 7 targets means that the Customer outcome is 5.25%.

(7) The targets set at the start of 2022 were to increase the percentage of females in the top three layers by 3% on aggregate and to increase the percentage of colleagues from ethnic minority backgrounds by 1% on aggregate. Note that NatWest Group's management structures were revised during 2022. The representation targets were set based on the management structures in place at the start of financial year 2022 with performance assessed against these at 31 December 2022. This will differ from the year-end position quoted elsewhere in our reporting suite, which uses the structures in place as at 31 December 2022.

(8) Enterprise target aimed at supporting the recovery and prioritising support for harder to reach groups with higher barriers to entering and growing a business. The support was to be distributed as follows: 75% support to UK regions outside London & South East, 60% support to females, 20% support to individuals from ethnic minority backgrounds, and 20% to people intending to create purpose-led businesses. Minimum target: 33,250 businesses and 237,500 interactions, Maximum target: 38,500 businesses and 275,000 interactions (same percentage distribution as target).

(9) The articulation of the 2022 target in last year's report was to reach 4 million people through financial capability interactions. The intent was to deliver 4 million interactions during the year rather than reaching 4 million people. This is consistent with our overarching ambition of delivering 15 million financial capability interactions by 2023 and the wording used to describe the financial capability measure in last year's report, which was based on the number of interactions. Performance has therefore been assessed against the intended target.

(10) Amounts quoted are pre tax whereas RoTE impacts are post tax.

Vesting of 2020 LTI awards (audited)

The LTI award was granted in March 2020 in respect of performance year 2019. Prior to the awards being granted to the CEO and CFO, reductions of 22% and 27% respectively were applied to the maximum award as a result of the pre-grant performance assessment. The reductions were made as risk, customer and financial performance were not fully at the desired level. At the end of 2022, a further assessment took place to review whether anything had come to light which might call into question the original award.

The assessment found that there had been no material deterioration in financial, customer, risk and culture performance since grant. The forensic investigation of Financial Crime and Customer Due Diligence remediation had resulted in adjustments to prior vestings of the 2018 and 2019 LTI awards through the risk underpin. Given the financial crime return to risk appetite had remained on track for the objectives set, the committee and the Board determined that no further adjustment was necessary. It was noted that, while the timeline had slipped since the grant of the 2020 LTI award, this had been a contributory factor in the decision to make a 5% adjustment to the CEO and former CEO's 2019 LTI awards last year. Overall, the data indicated that the required level of sustainable performance had been achieved and no further reductions were made to the 2020 LTI awards under the pre-vest test.

The committee also considered the potential application of risk and stakeholder perception underpins, which included a detailed discussion on whether the vesting outcome could result in potential windfall gains. The committee used our pre-disclosed framework and a range of other factors to assess windfall gains and believed there was a strong rationale for not making any adjustment. Details of the pre-vest performance assessment and the process to assess windfall gains can be found on the pages that follow.

A summary of the position from grant to vest is set out below along with the estimated vesting values for the 2020 LTI award, which is used in the single total figure of remuneration table. No dividend equivalents were paid prior to vesting. The shares will vest in equal amounts between 2023 and 2027, followed by a 12-month retention period. Malus and clawback provisions also apply.

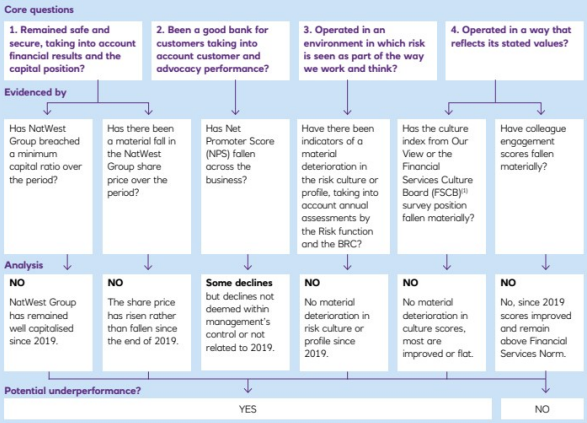
	Alison Rose		Katie Murray	
2020 LTI award	**Shares**	**Value**	**Shares**	**Value**
Maximum at grant	1,131,488	**£1,925,000**	881,679	**£1,500,000**
Reduction for pre-grant test	(249,809)	**(£425,000)**	(235,114)	**(£400,000)**
Award granted	881,679	**£1,500,000**	646,565	**£1,100,000**
Reduction for pre-vest test	–	–	–	–
Amount post performance tests	881,679	**£1,500,000**	646,565	**£1,100,000**
Increase in value due to share price	–	**£677,747**	–	**£497,016**
Estimated vesting value	–	**£2,177,747**	–	**£1,597,016**

(1) Share price at grant was £1.701 and the estimated vesting value was based on share price of £2.47, the average over the three-month period from October to December 2022.

2020 LTI award – Pre-vest performance assessment framework

LTI awards were made in early 2020 following an assessment of performance over the 2019 financial year. Before vesting, the committee carries out a further review to consider whether anything has come to light which might call the original award into question. Internal control functions and PwC, as independent advisers, the Group Board Risk Committee (BRC) and the Group Sustainable Banking Committee (SBC) support the committee in this assessment, with the outcome set out below.

Looking back to performance for 2019 and 'knowing what we know now', has NatWest Group



Where the answer is 'Yes', three further questions are considered:

1. Is the underperformance due to factors within management's reasonable control in the circumstances?
2. Can the underperformance be linked back to the performance year to which the award relates, rather than to performance developments since?
3. Is it appropriate to reflect the underperformance in the current pre-vest test (i.e. if the underperformance has not been adequately reflected in other ways such as subsequent pre-grant tests for awards granted in the interim)?

If the answer to each of these questions is "Yes", the committee may decide that a further adjustment prior to vesting is appropriate, and it has the discretion to decide the amount.

Further analysis

Since the declines in some customer metrics were not within management's control or related to 2019, there was no deterioration in financial, customer, risk and culture performance that would merit a reduction prior to vesting. The committee noted the investigation of Financial Crime and CDD remediation had resulted in adjustments to prior LTI vestings through the risk underpin. Since the timeline for financial crime return to appetite had not worsened over the course of 2022, no further adjustments were considered necessary as part of the 2020 LTI pre-vest assessment.

(1) FSCB was formerly the Banking Standards Board. NatWest Group will cease to take part in the FSCB survey from 2022. Going forwards the LTI pre-vest culture assessment will be assessed using Our View; NatWest Group's internal colleague opinion survey.

Achievement of 'threshold level of sustainable performance' has been evidenced.

No adjustment proposed, subject to underpins to consider any significant risk, stakeholder or reputational matters not already captured in the performance assessment, with advice from the BRC and the SBC.

Windfall gains

The 2020 LTI award was granted in March 2020 at a time when the true impact of COVID-19 was just beginning to emerge. Following the grant, the committee noted shareholder expectations on the need to consider whether this grant could result in potential windfall gains.

In line with guidance issued by shareholders in 2020, we implemented and disclosed a framework to assess any windfall gains related to our LTI awards. Under this framework, we take into account factors such as:

a. the level of grant price in comparison to pre-COVID-19 levels;

b. share price appreciation over the pre-vest period, including any share price appreciation specific to NatWest Group which would be indicative of strong management performance;

c. the level of share price appreciation that would indicate exceptional share price performance, such as an upper decile share price, suggesting a windfall gain may have arisen; and

d. reductions already applied to the executive directors' pay and award levels during the pre-grant and pre-vest performance period of the relevant LTI grant.

For the 2020 LTI award, the committee's assessment considered the following factors:

- The share price for the March 2020 LTI award was 35% below the prior grant. However, the grant was not made at the lowest point of the market as both the NatWest Group share price and the FTSE saw further significant falls in the period following grant, due to the impact of COVID-19. It is only this further drop after the grant date which saw a quick recovery over 2020 as market uncertainty was removed.
- During the pre-vest period following the grant of the 2020 LTI award, NatWest Group's share price performed strongly (+87%), which exceeded that of the FTSE350 Banking Index (+20%) and the FTSE100 index (+25%). This upward trend reflected the significant improvement in NatWest Group's performance over the same period, evidenced by factors such as:
  - our strong capital position and continued capital generation meaning we are well placed to invest for growth;
  - improvement in operating performance including achievement of cost reduction targets during the pre-vest performance period; and
  - return of surplus capital, with shareholder returns increasing from £0.4 billion in 2020 to £3.8 billion for 2021 and £5.1 billion for 2022.
- The committee also noted that the NatWest Group LTI construct was different to a more traditional LTIP construct in that LTI awards delivered lower maximum opportunity but more predictable levels of pay. Our LTI awards have the main performance test prior to grant with a further assessment prior to vesting to ensure the performance has been sustainable.
- Under this construct, the March 2020 LTI grant to the CEO and CFO for performance year 2019, was reduced to 78% and 73% of maximum respectively, based on performance against pre-set and unadjusted targets. The committee considered this was another important consideration in making the windfall gain assessment. As the shares from the 2020 LTI award will vest between 2023 and 2027, followed by a 12-month retention period after each vesting, this will ensure there is long-term alignment with the interests of shareholders.
- For the 2020 performance year, the pay for the CEO and CFO was reduced through voluntary waivers and a COVID-19 related reduction respectively. In April 2020, the CEO voluntarily decided to forgo 25% of her total fixed pay for the remainder of 2020 (reducing her fixed share allowance by £426,000). In addition, the CEO confirmed she did not wish to receive an LTI award for the 2020 performance year which the committee determined to be £899,000 as noted in the 2020 Directors' remuneration report. In total, the CEO waived £1,325,000 of her 2020 pay. The CFO's LTI award for 2020 after adjustment for performance was reduced by a further £418,000 (38%) to reflect the impact of COVID-19.

The committee noted that this was a complex area and one which required them to apply judgement and to make a holistic assessment of whether, based on all relevant facts and circumstances, a windfall gain could be said to have arisen in respect of the 2020 LTI awards held by the executive directors.

Whilst the committee acknowledged there was a share price fall prior to grant and a subsequent improvement, given the mitigating factors set out above, it concluded that no windfall gain had arisen and that no further adjustment was required to be made to the 2020 LTI awards prior to vesting.

The committee Chair discussed our windfall gains assessment framework in detail with our key shareholders and proxy advisors as part of the recent engagement programme, and the stakeholders at these meetings noted our proposed approach.

Share price comparison over post-grant period



Scheme interests – LTI awards granted during 2022 (audited)

	Grant date	Face value	Award price	Shares awarded(1)	Vesting levels	Performance requirements
Alison Rose	7 March 2022	£1,598,000	£1.8205	877,781	Between 0% – 100% with no set minimum vesting	The award was subject to a pre-grant assessment of performance over 2021. A further assessment will take place following the end of the 2024 financial year to check that nothing has come to light that would change the original decision. This assessment will operate in a similar way to the framework for the 2020 LTI award pre-vest assessment, as set out above.
Katie Murray	7 March 2022	£1,057,500	£1.8205	580,885		

(1) The conditional share awards granted to Ms Rose and Ms Murray equated to 145% and 141% of base salary respectively. The number of shares was calculated taking into account performance and the maximum potential award. The award price was based on the average share price over five business days prior to grant. Subject to the pre-vest assessment, these awards will vest in equal amounts between years 2025 and 2029. Service conditions and malus provisions apply up until vest, and clawback provisions apply for a period of at least seven years from the date of grant.

RSP awards to be granted for 2022 (audited)

RSP awards are granted provided the committee considers performance over the prior year has been satisfactory, based on an assessment against our internal performance management framework. The determination of whether satisfactory performance has been achieved is based on our internal ratings scale (one to five) with a rating of three or above normally resulting in the RSP award being granted at maximum. A three rating means performance goals have been fully achieved throughout the year and behaviours have been demonstrated at the required level. Performance against regulatory accountabilities are also considered.

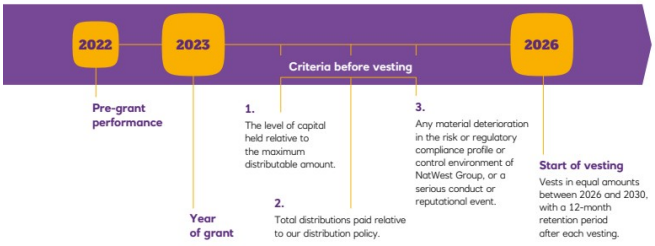
The maximum RSP award under the Policy in the first year of implementation was limited to 125% of base salary. The CEO and CFO received ratings of four and three respectively for 2022, meaning performance goals were fully achieved or exceeded and behaviours were demonstrated at the required level. All regulatory responsibilities were also met. Noting the achievements by both executive directors over the year and the subsequent performance ratings, the committee agreed that RSP awards would be granted at maximum, in line with the Policy.

As a result, the CEO and CFO will receive RSP awards of £1,395,625 and £951,563 respectively. The awards will be delivered entirely in shares and subject to conditions before vesting as well as significant holding periods to create long-term alignment with the experience of shareholders. Malus and clawback provisions will also apply.

Pre-vest underpin

The committee will make an assessment at the end of the three-year performance period (covering financial years 2023 to 2025) to determine whether sustainable performance has been achieved. Before vesting, the outcome will be reviewed using the underpin criteria below. Following the assessment, RSP awards may vest in full, in part or lapse in their entirety, with discretion to consider other factors and apply discretion before deciding the final vesting outcome. This will mitigate any potential unintended outcomes that might arise and ensure that there is a fair outcome.

A sustainable level of performance over the period will be considered with reference to:



Remuneration for the Chairman and non-executive directors in 2022

The basic Board fee was increased from £80,000 to £82,000 per annum from 1 May 2022. This was the first change to the basic Board fee since 2017 and the decision was made after considering the fees paid by other major UK banks as well as salary increases for the wider workforce. The 2.5% increase was lower than the 3.6% average salary increase applied across our global workforce from April 2022. The fees for the Chairs of the Group Audit Committee, Group Board Risk Committee and the Group Performance and Remuneration Committee were increased from £68,000 to £73,000 per annum to bring the rates closer to market practice and to acknowledge the considerable time commitment of these roles in a regulated major bank. The composite fee for Frank Dangeard was increased from £264,000 to £270,000 to reflect the change in the basic Board fee and in view of his commitments and responsibilities as Chairman of NatWest Markets Plc. All of the changes were within the scope of the remuneration policy approved by shareholders and no directors were involved in decisions regarding their own remuneration.

For NatWest Group plc Board directors who also serve on the Boards and Committees of NatWest Holdings Limited, National Westminster Bank Plc and The Royal Bank of Scotland plc, the fees below reflect membership of all four boards and their respective Board Committees. Directors may also receive fees for membership of other subsidiary company Boards and Committees, the value of which is included below. No variable pay is provided to the Chairman and non-executive directors.

Total remuneration for the Chairman and non-executive directors in 2022 (audited)

	Fees		Benefits[1]		Total	
Chairman (composite fee)	**2022 £000**	2021 £000	**2022 £000**	2021 £000	**2022 £000**	2021 £000
Howard Davies	**750**	750	**14**	13	**764**	763

Non-executive directors

	Board £000	N&G £000	GAC £000	BRC £000	RemCo £000	SBC £000	TIC £000	SID £000	CAP £000	Other £000	Fees 2022 £000	2021 £000	Benefits[2] 2022 £000	2021 £000	Total 2022 £000	2021 £000
Frank Dangeard[3]										268	**268**	262	**3**	1	**271**	263
Roisin Donnelly[4]	21										**21**	–	**6**	–	**27**	–
Patrick Flynn	81	15	72	34			30				**232**	227	**5**	1	**237**	228
Morten Friis	81	15	34	72							**202**	197	**44**	22	**246**	219
Robert Gillespie[5]	78	14	33	33	52						**210**	227	**17**	2	**227**	229
Yasmin Jetha	81					30	60				**171**	170	**4**	1	**175**	171
Mike Rogers	81				34	60			4		**179**	172	**15**	–	**194**	172
Mark Seligman	81	15	34		34			34			**198**	191	**5**	1	**203**	192
Lena Wilson	81	4		34	45	30			11		**205**	195	**17**	5	**222**	200

(1) The benefits column for Howard Davies, Chairman, includes private medical cover, life cover and expenses in connection with attendance at Board meetings.
(2) Non-executive directors are reimbursed expenses incurred in connection with travel and attendance at Board meetings. The value of benefits had fallen in 2020 and 2021 due to less travel during the COVID-19 restrictions but have returned to more typical levels in 2022.
(3) Under the 'Other' column, Frank Dangeard received a composite fee as Chairman of the NatWest Markets Plc Board.
(4) Roisin Donnelly was appointed to the Board with effect from 1 October 2022.
(5) Robert Gillespie stepped down from the Board with effect from 15 December 2022.

Key to table:

N&G	Group Nominations and Governance Committee	SBC	Group Sustainable Banking Committee
GAC	Group Audit Committee	TIC	Technology and Innovation Committee
BRC	Group Board Risk Committee	SID	Senior Independent Director
RemCo	Group Performance and Remuneration Committee	CAP	Colleague Advisory Panel

Payments for loss of office and payments to past directors (audited)

There were no payments for loss of office made to directors in 2022. Ross McEwan stepped down from the Board as CEO in October 2019 and qualified for good leaver treatment in respect of his LTI awards. Mr McEwan received his final LTI award over 942,907 shares in 2020 with the award level reduced by 31% following the application of the pre-grant performance assessment. In line with the position for the current executive directors, no further reduction was made under the pre-vest test. The shares are due to vest between 2023 and 2027, subject to good leaver criteria continuing to be met. The value of the shares was £1,597,016, based on the average share price over October to December 2022. There are no other payments to past directors to disclose for 2022.

Implementation of remuneration policy in 2023

Pay arrangements

Both executive directors will receive annual bonus and RSP awards in March 2023 in respect of the 2022 performance year. You can find details of these awards on pages 138 and 143. A 3% increase to the base salary of each executive director has been agreed from 1 April 2023, which is less than half the expected average salary increase for the global workforce at 6.4%. Pay arrangements for the 2023 performance year are set out below.

	Salary (1 Jan 2023)	Salary (1 Apr 2023)	Standard benefits[1]	Pension	Fixed share allowance[2]	Maximum bonus award for 2023[3]	Maximum RSP award for 2023[4]
Alison Rose	£1,122,000	£1,155,660	£26,250	10% of salary	100% of salary	£1,147,245	£1,720,868
Katie Murray	£765,000	£787,950	£26,250	10% of salary	100% of salary	£782,213	£1,173,319

(1) Amounts shown relates to standard benefit funding. Executive directors are also entitled to benefits such as travel assistance and security arrangements in line with the Policy. We will disclose the value of benefits received each year. Executive directors are eligible to participate in all-employee share plan arrangements on the same basis as colleagues.

(2) Fixed share allowance is payable broadly in arrears, currently in four instalments per year. The shares will be released in equal amounts over a five-year period.

(3) The maximum bonus award under the Policy is set at 100% of base salary and is calculated on salary earned over the year. The award is expected to vest at 50% where on-target performance is achieved across the scorecard.

(4) The maximum RSP award under the Policy is set at 150% of base salary and is calculated on salary earned over the year. The award is normally expected to vest in full, subject to underpin criteria that will ensure there is no payment for failure. The maximum remuneration receivable by the CEO and CFO would increase by £860,434 and £586,659 respectively in the event there was a 50% increase in the NatWest Group plc share price over the RSP three-year period from grant to vest.

Annual bonus performance assessment for 2023

The annual bonus scorecard will be based on weighted performance measures and appropriately stretching targets across financial and non-financial areas that align with our purpose-led strategy. The main updates to the measures for 2023 are retiring our reduction in carbon emissions from own operations as this transitions to business as usual and supporting the initial Climate transition plan by targeting progress against sectoral targets.

For 2023, financial performance will represent 60% of the scorecard with target ranges set in line with the budget. Non-financial measures will be focused across climate, customer, purpose, culture and people, and enterprise and capability. These measures represent an aggregate of 35% of the scorecard and reflect our ESG priority areas as well as the importance of good customer outcomes. The remaining 5% will be assessed on Personal measures based on a discretionary assessment of the performance of each executive director over the year. A downward Risk modifier will also apply, enabling risk performance to be assessed and awards reduced, potentially to zero.

Threshold and maximum targets will be disclosed retrospectively at the end of the performance period in the 2023 Directors' remuneration report, alongside the actual level of performance achieved and associated narrative. No award will be made if threshold performance, as determined by the committee, is not achieved. The level of the award to be paid will vary between 10% for threshold performance and 100% for maximum performance. Target performance will pay out at 50% of maximum opportunity.

All assessments of performance are subject to the committee's judgment to determine the appropriate outcome. Discretion will only be used by the committee when the application of the formulaic performance outcome drives an unrepresentative outcome or when it is necessary to take into account strategic, economic or societal impacts that were not or could not have been accounted for at the point of agreeing the bonus scorecard.

Annual bonus performance measures and targets for 2023

Category	Performance measures		Target	Weighting %
			Financial	
Financial (60%)	Group RoTE.		Targets set and the extent of their achievement will be disclosed in the 2023 Annual Report as the committee considers them to be commercially sensitive at this point in time.	30%
	Group underlying income excluding notable items.		£14.8 billion	10%
	Group operating expenses, excluding litigation and conduct costs.		£7.6 billion	10%
	Progress to medium-term capital target.		CET1 target range of 13-14%	10%
			Non-Financial	
Strategic (35%)	Climate	Funding and financing committed to climate and sustainable finance.	Funding and financing target of £25.3 billion towards the £100 billion target.	10%
		Implementation of the initial Climate transition plan.	Four sectors on target with one of the two Assets Under Management and Retrofit milestones achieved.	

Category	Performance measures		Target	Weighting %
Strategic (35%)	Customer	Net promoter score (NPS) and Customer Touchpoint Rating (CTR) for our brands.	Consumers: Improve NatWest Retail Main Bank NPS to +23 or 3rd (from +22 and 3rd). Businesses: Improve NatWest Business Banking £0-750k NPS to -6 or 3rd (from -8 and 3rd) and maintain NatWest Commercial Mid-Market £750k+ NPS at +17 or 1st. Private Banking: Improve Premier NPS to +31 or 3rd (from +29 and 3rd). Achieve Coutts NPS (12MR) of +36 (from +38) or Coutts NPS (3MR) of +49 (from +28). RBSI: Maintain NPS of +35. NatWest Markets: maintain average CTR of 72%.	10%
	Purpose, culture and people	Progress against purpose targets.	Purpose target from Our View = 87	10%
		Progress against culture targets.	Culture target from Our View = 80	
		Number of females in senior roles.	Increase percentage in the top three layers to 42% on aggregate	
		Number of colleagues from ethnic minority backgrounds in senior roles.	Increase percentage in the top four layers in the UK to 12.5% on aggregate	
	Enterprise & capability	Support the sustainable growth ambitions of our customers. Prioritise support for harder to reach groups with higher barriers to entering and growing a business.	Support 35,000 businesses through enterprise programmes with 275,000 customer interactions. Support being distributed as follows: 75% to UK regions outside London & South East; 50% to females; 20% to individuals from ethnic minority backgrounds.	5%
		Encourage youth participation in enterprise.	50,000 young adults engaged in Enterprise and Entrepreneurship activity.	
		Number of financial capability interactions which require active engagement, give knowledge or skills or change behaviour.	Deliver 4 million financial capability interactions from key initiatives (MoneySense, Financial Health Checks, Spending Feature and Know My Credit Score).	
Personal (5%)	Discretionary assessment at year end for both executive directors.		CEO performance is based on recommendation from Chairman taking into account additional individual performance factors.	5%
			CFO performance is based on recommendation from CEO taking into account individual performance goals and the performance of the Finance function.	
Risk (0-100%)	Risk performance assessment based on Group, NatWest Holdings, Functional (CFO only) and individual risk performance.		Discretionary downwards modifier.	0 -100%

RSP performance assessment for 2023

RSP awards are granted entirely in shares creating simple and effective alignment with the returns that shareholders receive over the long term. This is supported by annual bonus arrangements, which ensure that executive directors are also incentivised to deliver on the key strategic priorities of NatWest Group, with robust weighted performance measures as set out on the previous page. After the pre-grant test and underpin, the RSP would be expected to pay out at 100% in the vast majority of cases to deliver the expected value under the Policy.

Pre-grant test

Executive directors will be granted an RSP award in 2024 provided the committee considers performance over 2023 has been satisfactory, based on an assessment against our performance management framework.

Pre-vest underpin

RSP awards will not be subject to further performance conditions. However, before vesting, the committee will review the outcomes of the business against the following underpin criteria.

A sustainable level of performance over the period will be considered with reference to:

1. the level of capital held relative to the maximum distributable amount;
2. total distributions paid relative to our distribution policy; and
3. any material deterioration in the risk or regulatory compliance profile or control environment of NatWest Group, or a serious conduct or reputational event.

The committee will make an assessment at the end of the three-year performance period to determine whether sustainable performance has been achieved. The committee will refer to the above underpin criteria in determining whether this has been the case. Following the committee's assessment, RSP awards may vest in full, in part or lapse in their entirety. The committee will also retain the right to consider other factors and apply discretion before making a decision on the final vesting outcome. This will mitigate any potential unintended outcomes that might arise and ensure that there is a fair outcome. The committee will explain its reasons for applying discretion in either direction, or for not doing so.

Chairman and non-executive directors' shareholding policy and annual fees for 2023

The Chairman and non-executive directors typically hold shares in NatWest Group, recognising this is a practice that shareholders generally encourage. The shares have been acquired on a voluntary basis to date with no guidance on the level of expected shareholding. Having reflected on our current arrangements, and after considering the position at other major UK banks, the Board has decided to introduce a formal shareholding policy for these individuals from 1 January 2023. The policy does not apply to directors who are due to step down from the Board within 12 months of 1 January 2023.

Under the shareholding policy, NatWest Group will retain a portion of the net monthly basic fees (10% for the Chairman and 25% for non-executive directors) which will be used to purchase shares every quarter. The Chairman will be required to build towards a shareholding equivalent to four times the basic annual Board fee (currently £328,000) and for non-executive directors the target is one times the basic annual Board fee (currently £82,000). Once the target is achieved, monthly deductions and quarterly purchases will continue at a reduced percentage of net monthly fees (5% for the Chairman and 10% for non-executive directors). The shares purchased under the shareholding policy will be held in a nominee account with dividends reinvested and shares retained until the director steps down from the Board.

We believe this is a progressive and proportionate approach to shareholder alignment that will provide consistency and ultimately higher levels of shareholdings for this cohort. It will also ensure there is a continuous element of shareholder alignment as the Chairman and non-executive directors will continue to acquire shares over their entire tenure. The annual fees for 2023 are set out below, with the fees delivered in a combination of cash and shares in line with the shareholding policy above.

Fees for NatWest Group plc Board[1]	Rates from 1 January 2023
Chairman (composite fee)	£750,000
Non-executive director basic fee	£82,000
Senior Independent Director	£34,000

Fees for NatWest Group plc Board Committees[1]	Member	Chairman
Group Board Risk Committee	£34,000	£73,000
Group Audit Committee	£34,000	£73,000
Group Performance and Remuneration Committee	£34,000	£73,000
Group Sustainable Banking Committee	£30,000	£60,000
Technology and Innovation Committee	£30,000	£60,000
Group Nominations and Governance Committee	£15,000	–

Other fees for NatWest Group plc Board directors	
Chairman of NatWest Markets Plc (composite fee to cover all boards and committees)	£270,000
Chairman of the Colleague Advisory Panel	£15,000

(1) No additional fees are payable where the director is also a member of the boards and respective board committees of NatWest Holdings Limited, National Westminster Bank Plc and The Royal Bank of Scotland plc. Where appropriate, directors receive additional fees for membership of other subsidiary company boards and committees including NatWest Markets Plc. We will disclose the value of fees received in this report each year.

Other external directorships

The Board must approve any additional appointments undertaken by directors outside NatWest Group. Steps are in place to make sure that directors comply with regulatory limits on the number of directorships held. The Board also considers whether it is appropriate for executive directors to retain any remuneration from any new external roles, depending on the appointment. You can find details of current external appointments in the biographies section of the Corporate governance report.

Annual change in directors' pay compared to average change in employee pay

Remuneration for employees is based on salary, benefits and annual bonus. The CEO and CFO receive fixed share allowances and, from the 2022 performance year onwards, annual bonus awards. As no bonus awards were made to the executive directors for the 2021 performance year, there is no prior year comparison in the table below. The Chairman and non-executive directors receive fees rather than salary and do not receive any variable pay. We regularly review membership of Board Committees and changes in membership will impact the level of fees paid to non-executive directors from one year to the next. The benefits figures for non-executive directors can also change significantly year on year depending on the amount of travel undertaken in connection with Board meetings. The data for non-executive directors below reflects the value of benefits mainly falling in 2020 and 2021, due to less travel during the COVID-19 restrictions, before returning to more typical levels in 2022.

	2021 to 2022			2020 to 2021			2019 to 2020		
Annual percentage change	**Salary**	**Benefits[1]**	**Annual Bonus**	Salary	Benefits[1]	Annual Bonus	Salary	Benefits[1]	Annual Bonus
UK employees[2]	**5.20%**	**6.34%**	**42.48%**	2.02%	4.68%	35.24%	2.86%	1.70%	-32.4%
Executive directors									
Alison Rose[3]	**1.5%**	**0%**	**–**	0%	0%	n/a	–	–	n/a
Katie Murray	**1.5%**	**0%**	**–**	0%	0%	n/a	0%	0%	n/a

Chairman and non-executive directors	**Fees**	**Benefits**	**Annual Bonus**	Fees	Benefits	Annual Bonus	Fees	Benefits	Annual Bonus
Howard Davies	**0%**	**8%**	**n/a**	0%	8%	n/a	0%	-9%	n/a
Frank Dangeard	**2%**	**200%**	**n/a**	1%	0%	n/a	0%	-75%	n/a
Roisin Donnelly[4]	**–**	**–**	**n/a**	–	–	n/a	–	–	n/a
Patrick Flynn	**2%**	**400%**	**n/a**	0%	-67%	n/a	2%	-70%	n/a
Morten Friis	**3%**	**100%**	**n/a**	17%	214%	n/a	14%	-80%	n/a
Robert Gillespie[4]	**-7%**	**750%**	**n/a**	3%	-33%	n/a	-3%	-84%	n/a
Yasmin Jetha[4]	**1%**	**300%**	**n/a**	33%	100%	n/a	–	–	n/a
Mike Rogers	**4%**	**–**	**n/a**	1%	-100%	n/a	0%	-83%	n/a
Mark Seligman	**4%**	**400%**	**n/a**	1%	0%	n/a	-4%	-88%	n/a
Lena Wilson	**5%**	**240%**	**n/a**	8%	25%	n/a	16%	-64%	n/a

(1) Standard benefit funding for executive directors has remained unchanged. The figures above exclude any other benefits to executive directors such as travel assistance in connection with company business, the value of which is disclosed each year in the total remuneration table.

(2) NatWest Group plc is a holding company and is not an employing entity. Therefore the disclosure above is made on a voluntary basis to compare any change in directors' pay with all employees based in the UK. The data above is based on the average full time equivalent salary and benefit costs of UK based employees of NatWest Group, excluding the CEO and the CFO. This is considered to be the most representative comparator group, as it covers the majority of employees and the CEO and CFO are based in the UK. The average percentage change relates to salaries and benefits awarded in the respective financial years for UK employees and therefore may differ from figures quoted elsewhere in the report, for example, the proposed salary increases announced in December 2022 to be awarded from April 2023.

(3) Alison Rose, CEO, was appointed on 1 November 2019 and therefore the annual change comparison to 2020 is not applicable.

(4) Roisin Donnelly joined the Board on 1 October 2022 and Yasmin Jetha re-joined the Board on 1 April 2020, so there are no prior year comparisons. Robert Gillespie stepped down from the Board with effect from 15 December 2022.

CEO to employee pay ratios

The ratios on the next page compare the total pay of the CEO, as set out in the single figure of remuneration table in this report, against the pay of three employees whose earnings represent the lower, median and upper quartiles of the UK employee population. A significant proportion of the CEO's total remuneration is delivered through long-term incentive arrangements, linked to performance and share price movements, which means this part of the ratio can fluctuate significantly from one year to the next. None of the three employees identified this year received equivalent long-term incentive arrangements. Information based on salary only is included as a further comparison.

The pay ratios reflect the diverse range of roles and pay levels across NatWest Group as a large financial services company. For the total remuneration comparison, the median employee for 2022 works in Services and the median pay ratio is consistent with the pay and reward policies for UK employees as a whole. We are determined to pay each individual a fair rate for the role performed, using consistent reward policies and offering opportunities for progression. We set out further information on our fair pay approach earlier in this report and in our supporting ESG Disclosures Report at natwestgroup.com. The change in the median pay ratio since 2018 is largely driven by the more volatile nature of performance-related pay for the CEO. In April 2020, the CEO decided to forgo 25% of her fixed pay for the rest of the year which contributed to the ratio falling in 2020 before rising in 2021.

The median pay ratio has increased further in 2022 primarily due to the CEO receiving an annual bonus award for the first time under the new Policy and a higher vesting value for the LTI award compared to last year, as a result of strong share price performance. The single figure of remuneration for the CEO, on which the pay ratio is based, includes a combination of our new and old Policies this year and this may impact the ratio in future years as any outstanding LTI awards complete their three-year performance cycle. The total remuneration for employees at the lower, median and upper quartiles have all increased year-on-year. On a comparison of salary only, the trend continues to be stable.

CEO to employee pay ratios

			Pay ratios				Remuneration values (£000)			
Year	Methodology		P25 (LQ)	P50 (Median)	P75 (UQ)	Calculation	CEO	Y25 (LQ)	Y50 (Median)	Y75 (UQ)
2018	A	Total remuneration	143:1	97:1	56:1	Total remuneration	3,578	25	37	64
		Salary only	44:1	30:1	19:1	Salary only	1,000	23	33	51
2019	A	Total remuneration	175:1	118:1	69:1	Total remuneration	4,517	26	38	66
		Salary only	44:1	30:1	19:1	Salary only	1,017	23	34	52
2020	A	Total remuneration	99:1	66:1	39:1	Total remuneration	2,615	26	40	66
		Salary only	46:1	31:1	20:1	Salary only	1,100	24	36	54
2021	A	Total remuneration	130:1	87:1	51:1	Total remuneration	3,588	28	41	70
		Salary only	44:1	29:1	20:1	Salary only	1,100	25	37	55
2022	A	**Total remuneration**	**177:1**	**119:1**	**71:1**	**Total remuneration**	**5,249**	**30**	**44**	**74**
		Salary only	**42:1**	**28:1**	**19:1**	**Salary only**	**1,117**	**27**	**40**	**58**

Supplementary information on the pay ratio table:

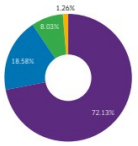
(1) The data for 2022 is based on remuneration earned by Alison Rose, as set out in the single figure of remuneration table in this report.

(2) The employees at the 25th, 50th and 75th percentiles (lower, median and upper quartiles) were determined as at 31 December of the relevant year, based on full-time equivalent remuneration for all UK employees. This includes fixed pay (salary, pension funding and where relevant benefit funding and other allowances) and also any variable pay (based on the amount to be paid). For employees who work part-time, fixed pay is grossed up to the full-time equivalent.

(3) 'Option A' methodology was selected as this is considered the most statistically accurate method. UK employees receive a pension funding allowance set as a percentage of salary. Some employees, but not the CEO, continue to participate in the defined benefit pension scheme. Under this, it would be possible to recognise a higher value, which would in turn reduce the ratios. However, for simplicity and consistency with regulatory disclosures, we have included the pension funding allowance value in the calculation for all employees.

(4) The data for the three employees identified has been considered and fairly reflects pay at the relevant quartiles among the UK employee population. Each of the three individuals was a full-time employee during the year and none received an exceptional award that would otherwise inflate their pay figure.

Summary of remuneration levels for employees in 2022



- 50,894 employees earned total remuneration up to £50,000
- 13,107 employees earned total remuneration between £50,000 and £100,000
- 5,667 employees earned total remuneration between £100,000 and £250,000
- 889 employees earned total remuneration over £250,000

The disclosure of remuneration levels for employees includes anyone employed by NatWest Group during the year.

Remuneration of Material Risk Takers (MRTs) in 2022

Each year, we disclose the remuneration paid to individuals whose activities have a material influence over NatWest Group's performance or risk profile, known as MRTs. The disclosures are made in line with regulatory requirements and full details can be found in our Pillar 3 reports on natwestgroup.com. The tables below summarise the total pay for staff identified as MRTs for one or more entities across NatWest Group along with the number of individuals earning more than £1 million for the year. Note that the number of MRTs excludes colleagues who left NatWest Group prior to 31 December 2022 in line with regulatory requirements.

Number of MRTs	704
Remuneration (£millions)	
Total fixed pay	£196.33
Total variable pay	£106.16
Total remuneration	**£302.49**

Number of >€1m earners	
€1.0 million to below €1.5 million	53
€1.5 million to below €2.0 million	17
€2.0 million to below €2.5 million	6
€2.5 million to below €3.0 million	3
€3.0 million to below €3.5 million	1
€3.5 million to below €4.0 million	–
€4.0 million to below €4.5 million	1
Total	**81**

Directors' interests in NatWest Group plc shares (audited)

Under the shareholding requirements, the CEO and CFO need to build up and maintain shares to the value of 500% of salary and 300% of salary respectively. The requirements apply both during employment and for two years after leaving, in line with best practice. Procedures are in place to enforce the shareholding requirements, and you can find further details on page 135. As set out earlier in this report, the Chairman and non-executive directors will be subject to a separate shareholding policy from 2023.

Share interests held by directors

	Alison Rose	Katie Murray	Howard Davies	Frank Dangeard	Roisin Donnelly[1]	Patrick Flynn	Morten Friis[3]	Robert Gillespie	Yasmin Jetha	Mike Rogers	Mark Seligman[4]	Lena Wilson
Shares held[2]	2,117,170	1,044,209	102,142	4,642	–	18,571	18,570	23,214	27,857	18,571	27,857	27,857
Shareholding requirement	500% of salary	300% of salary	–	–		–	–	–	–	–	–	–
Position against requirement	603% of salary	398% of salary	–	–		–	–	–	–	–	–	–

(1) Roisin Donnelly was appointed to the Board from 1 October 2022.
(2) Shares owned beneficially as at 31 December 2022 or at the date of stepping down from the Board if earlier. Includes shares held by persons closely associated with the directors. As at 16 February 2023, there were no changes to the shares held as shown above. Share awards, as shown below, are also included for the purposes of the shareholding requirement once any performance assessment has been completed. All share awards are included net-of-taxes due to be paid on vesting. The position against the requirement was calculated as at 31 December 2022, at which point both executive directors exceeded the requirement based on the closing price of £2.652 on 30 December 2022.
(3) The share interest held is over 9,285 American Depositary Receipts representing 18,570 ordinary shares.
(4) 9,285 shares are held in the name of M Seligman & Co Limited, of which Mr Seligman and Louise Seligman are shareholders.
(5) The share interest figures above have been adjusted to reflect the 13 for 14 share consolidation on 30 August 2022.

Share awards under share plans

	Year	Awards held 1 Jan 2022	Awards granted	Award price £	Awards vested	Awards lapsed	Awards forfeited	Awards held 31 Dec 2022	Expected vesting dates
Alison Rose									
LTI award	2017	167,758		2.41	55,920			**111,838**[1]	07.03.23 – 07.03.24
LTI award	2018	368,560		2.66	92,140			**276,420**[1]	07.03.23 – 07.03.25
LTI award	2019	568,829		2.64	107,319	32,234		**429,276**[1]	07.03.23 – 07.03.26
LTI award	2020	881,679		1.70				**881,679**[2]	07.03.23 – 07.03.27
LTI award	2022		877,781	1.82				**877,781**[2]	07.03.25 – 07.03.29
		1,986,826	877,781		255,379	32,234		**2,576,994**	
Total LTI awards subject to service								**817,534**[1]	
Total LTI awards subject to performance and service								**1,759,460**[2]	
Katie Murray									
Deferred award[4]	2017	17,084		2.41	17,084			–	
LTI award	2017	31,191		2.41	31,191			–	
Deferred award	2018	53,591		2.66	26,796			**26,795**[1]	07.03.23 – 07.03.23
Deferred award	2019	208,945		2.64	41,790			**167,155**[1]	07.03.23 – 07.03.26
LTI award	2020	646,565		1.70				**646,565**[2]	07.03.23 – 07.03.27
Sharesave	2020	3,200		1.12				**3,200**[3]	18.12.23
LTI award	2021	407,262		1.67				**407,262**[2]	07.03.24 – 07.03.28
LTI award	2022		580,885	1.82				**580,885**[2]	07.03.25 – 07.03.29
		1,367,838	580,885		116,861			**1,831,862**	
Total LTI and deferred awards subject to service								**193,950**[1]	
Total LTI awards subject to performance and service								**1,634,712**[2]	
Total Sharesave options								**3,200**[3]	

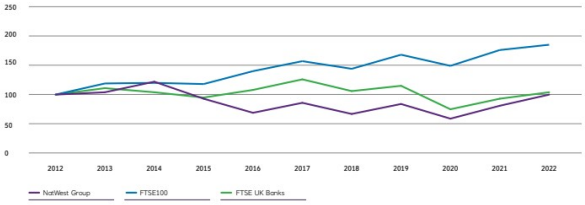
(1) Performance assessment has taken place and awards remain subject to deferral and employment conditions before vesting. These awards count on a net-of-tax basis towards meeting the shareholding requirement.
(2) Awards are subject to the LTI pre-vest performance assessment along with deferral and employment conditions before vesting. See earlier in this report for the pre-vest assessment of the 2020 LTI award. The first vesting of this award is due to take place in March 2023, which will be reflected in next year's table together with any shares lapsed for performance.
(3) Sharesave options enable colleagues to save from their salary with an option to buy shares at the end of the savings period. The award price is the price at which shares can be bought. Sharesave options are normally exercisable for a period of six months from the maturity date at an option price that is discounted by up to 20% of the market value around the time of the award.
(4) Deferred awards relate to annual bonus awards granted to Ms Murray for performance prior to becoming an executive director, with payments deferred in line with regulatory requirements.

Shareholder dilution and share sourcing

NatWest Group can use new issue, market-purchase or treasury shares to deliver shares that are required for employee share plans. Best practice dilution limits are monitored and govern the number of shares that may be issued to satisfy share plan awards.

Total Shareholder Return (TSR) performance

The graph compares the TSR performance of NatWest Group with companies comprising the FTSE 100 Index over the last 10 years. We have selected this index because it represents a cross-section of leading UK companies. We have added the TSR for FTSE UK banks for the same period as a further comparison.

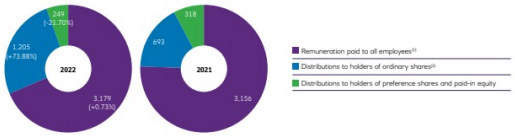


CEO pay over the same period

		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total remuneration (£000s)[1]	AR							1,401	2,615	3,588	**5,249**
	RM	393	1,878	3,492	3,702	3,487	3,578	4,066			
	SH	1,235									
Annual bonus against maximum opportunity	AR										**68%**
	SH	0%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
LTI vesting rates against maximum opportunity	AR							60%	82%	83%	**78%**
	RM		73%	62%	56%	89%	41%	78%			
	SH	0%									

(1) CEOs are Alison Rose (AR), Ross McEwan (RM) and Stephen Hester (SH) with figures based on the single figure of remuneration for the relevant year.

Relative importance of spend on pay £m (% change on 2021)



(1) Remuneration paid to all employees represents total staff expenses as per Note 3 to the consolidated financial statements, exclusive of social security and other staff costs.

(2) Reflects distributions to shareholders through dividend payments during the financial year. The Board has confirmed its intention to pay a dividend of 10.0p per ordinary share in respect of financial year 2022, which will be paid in 2023 subject to approval by shareholders at the forthcoming Annual General Meeting.

Statement of shareholder voting

At the AGM held on 28 April 2022, the resolutions to approve the Policy and the Annual remuneration report received strong levels of support.

Directors' Remuneration Policy

Vote	Number of shares	Percentage
For	33,883,943,928	92.75%
Against	2,649,384,392	7.25%
Withheld	126,953,196	–

Annual remuneration report

Vote	Number of shares	Percentage
For	36,237,314,672	98.87%
Against	414,528,384	1.13%
Withheld	8,356,700	–

The Group Performance and Remuneration Committee

Principal areas of focus

Wider workforce

- Approving and overseeing the NatWest Group-wide Remuneration Policy.
- Considering how pay has been allocated across the workforce, including analysis by colleague level, geography and diversity.
- Reviewing fixed pay proposals.
- Approving Sharesave offers to colleagues.
- Reviewing performance over the year and approving bonus pools for the business areas.
- Reviewing gender and ethnicity pay gap reporting.

Executive remuneration

- Reviewing performance assessments and remuneration arrangements for the committee's 'in scope' population.
- Setting performance objectives for senior executives for the year ahead.
- Approving the outcomes of variable pay awards.
- Approving remuneration for senior hires and arrangements for any leavers.
- Engaging with stakeholders on our remuneration proposals.
- Reviewing and approving the Directors' Remuneration Report.
- Receiving benchmarking data on executive pay and peer practice.

Governance and regulatory

- Approving agenda planners and ensuring the committee is meeting all its obligations under its terms of reference (ToR).
- Considering matters escalated by other Board Committees and subsidiary Performance and Remuneration Committees.
- Overseeing the MRT identification process.
- Approving submissions through the year to the UK regulators.
- Receiving quarterly updates on accountability reviews and approving accountability decisions for the population within its governance.
- Carrying out the annual evaluation of its performance.

The Group Performance and Remuneration Committee continued

Membership	All members of the committee are independent non-executive directors. In order to be considered for the role of committee Chair, an individual must first have served on a remuneration committee for at least 12 months. During 2022, Robert Gillespie was the committee Chair until 24 September 2022 when he stepped down and Lena Wilson became Chair, having been a member of the committee since April 2020. Frank Dangeard, Mike Rogers and Mark Seligman were members throughout 2022. The committee held six scheduled meetings in 2022 and a further three ad hoc meetings. You can find further details on members and attendance in the Corporate governance report on page 77.
Role of the Committee	The committee is responsible for: • approving the remuneration policy for all colleagues and reviewing the effectiveness of its implementation; • reviewing performance and making recommendations to the Board on arrangements for executive directors; • approving remuneration for a defined 'in-scope' population comprising members and attendees of the Senior Executive Committees and direct reports of the CEO, control function heads and the Company Secretary. The committee also approves arrangements where individuals earn total compensation above £1 million; and • setting the remuneration framework and principles for colleagues identified as Material Risk Takers (MRTs). The ToR of the committee is reviewed annually and available on natwestgroup.com
Operation of the policy	The remuneration policy operated broadly as intended during the year, with pay awarded to executive directors for 2022 broadly in line with that expected for the year. Strong performance across the annual bonus scorecard resulted in above target outcomes. The committee spent a considerable amount of time discussing the support to be provided to the wider workforce in response to the cost-of-living crisis, with a range of enhancements to colleagues' remuneration being announced.
Managing conflicts	To mitigate potential conflicts of interest, directors are not involved in decisions regarding their own remuneration. It is the committee, rather than management, that appoints remuneration advisers. Attendees also play an important role in advising the committee but are not present when their own remuneration is discussed. The Group Chief People & Transformation Officer may be present when discussions take place on senior executive pay, as there is considerable benefit from her participation. However, she is never present for discussions on her remuneration.
Committee advisers	PricewaterhouseCoopers LLP (PwC) was first appointed as remuneration adviser by the committee in 2010 and reappointed in 2022, following an annual review of the quality of advice and the level of fees. PwC is a signatory to the voluntary code of conduct in relation to remuneration consulting in the UK. The committee also took account of the views of the Chairman, the CEO, the CFO, the Group Chief People & Transformation Officer, the Director of Reward & Employment, the Group Chief Risk Officer and the Group Chief Audit Executive. The committee also received input from the BRC, the GAC, the SBC and the Performance and Remuneration Committees for the principal legal entities across NatWest Group. The professional services PwC provides in the ordinary course of business include assurance, advisory, tax and legal advice to NatWest Group subsidiaries. The committee is satisfied that the advice received is independent and objective. We also receive an annual statement setting out the protocols PwC has followed to maintain independence. There are no connections between PwC and individual directors to be disclosed. Fees paid to PwC for advising the committee are based on a fixed fee structure with any exceptional items charged on a time/cost basis. Fees for 2022 in relation to directors' remuneration amounted to £186,945 in total excluding VAT (2021 – £211,041 excluding VAT).
Performance evaluation	The 2022 evaluation was conducted internally by the Chief Governance Officer and Company Secretary. The committee acknowledged the former Chairman's stewardship through a period of significant change from a remuneration perspective, including the introduction of two new executive director remuneration policies. The committee also recognised the positive impact of recent improvements made by the new Chair to simplify the remuneration governance framework. Such improvements were designed to reflect feedback from the committee and other board committees during 2021. Reflecting on the success of the remuneration governance review, the committee requested management to explore opportunities to optimise remuneration policies and processes during 2023. The committee discussed the focus on wider workforce pay during 2022. In recent years, pay proposals relating to the population below executive level had increasingly become a feature of the committee's oversight responsibility, as required by the UK Corporate Governance Code. Given the impact of the cost-of-living crisis, the focus on wider workforce pay had understandably become even more pronounced during 2022. The committee agreed that it was important that it continued to have significant oversight of wider workforce pay in future.

Lena Wilson, CBE
Chair of the Group Performance and Remuneration Committee
16 February 2023

Compliance report

Statement of compliance

NatWest Group plc is committed to high standards of corporate governance, business integrity and professionalism in all its activities.

Throughout the year ended 31 December 2022, NatWest Group plc has applied the Principles and complied with all of the Provisions of the UK Corporate Governance Code issued by the Financial Reporting Council dated July 2018 (the 'Code') except in relation to:

- Provision 17, in respect of the requirement that the Group Nominations and Governance Committee should ensure plans are in place for orderly succession to both the Board and senior management positions and oversee the development of a diverse pipeline for succession; and
- Provision 33 that the Group Performance and Remuneration Committee (Group RemCo) should have delegated responsibility for setting remuneration for the Chairman and executive directors.

In respect of Provision 17, whilst the Board is supported on board succession by the Group Nominations and Governance Committee, the Board considers this is a matter of significant importance which should rightly be reserved for the full Board. Adopting this approach ensures that all directors have an opportunity to contribute to succession planning discussions for Board and senior management, in support of achieving an appropriate balance of skills, experience, knowledge and diversity at senior levels within NatWest Group and on the Board. It also means that all directors have an opportunity to review, consider and become familiar with the next generation of executive leaders.

In respect of Provision 33, the Board also considers that this is a matter which should rightly be reserved for the Board and this is an approach the Board has adopted for a number of years. Remuneration for the executive directors is first considered by the Group RemCo which then makes recommendations to the Board for consideration. This approach allows all non-executive directors, and not just those who are members of the Group RemCo, to participate in decisions on the executive directors' and the Chairman's remuneration and also allows the executive directors to input to the decision on the Chairman's remuneration. The Board believes this approach is very much in line with the spirit of the Code and no directors are involved in decisions regarding their own remuneration. A copy of the Code can be found at frc.org.uk.

The Board does not anticipate any changes to its approach on these aspects of the Code.

Further information on how NatWest Group plc has applied the Principles, and complied with the Provisions, of the Code can be found in the Corporate governance section of this report, which includes cross-references to relevant sections of the Strategic report and other related disclosures.

NatWest Group plc has complied in all material respects with the Financial Reporting Council Guidance on Audit Committees issued in September 2012 and April 2016.

Under the US Sarbanes-Oxley Act of 2002, specific standards of corporate governance and business and financial disclosures and controls apply to companies with securities registered in the US. NatWest Group plc complies with all applicable sections of the US Sarbanes-Oxley Act of 2002, subject to a number of exceptions available to foreign private issuers.

Internal control

The Board of Directors is responsible for the system of internal controls that is designed to maintain effective and efficient operations, compliant with applicable laws and regulations.

The system of internal controls is designed to manage, or mitigate, risk to an acceptable residual level rather than eliminate it entirely. Systems of internal control can only provide reasonable and not absolute assurance against material misstatement, fraud or loss.

Ongoing processes for the identification, evaluation and management of the principal risks faced by NatWest Group operated throughout the period from 1 January 2022 to 24 February 2023, the date the directors approved the Annual Reporton Form 20-F. These included the semi-annual Control Environment Certification process, which requires senior members of the executive and management to assess the adequacy and effectiveness of their internal control frameworks and certify that their business or function is compliant with the requirements of Sarbanes-Oxley Section 404 and the UK Corporate Governance Code. The policies that govern these processes – and reports on internal controls arising from them – are reviewed by the Board and meet the requirements of the Financial Reporting Council's Guidance on Risk Management Internal Control and Related Financial and Business Reporting.

NatWest Group operates a three lines of defence model, which provides an effective apportionment of responsibilities and accountabilities across the organisation. As part of its second line of defence role, the Risk oversight function exercises oversight and challenge of the risk management activities undertaken by the first line of defence, which is responsible for designing, implementing and maintaining effective processes, procedures and controls to mitigate risks within risk appetite. The Internal Audit function, which is the third line of defence, undertakes independent and objective assurance activities and provides reports to the Board and executive management on the quality and effectiveness of governance, risk management and internal controls to monitor, manage and mitigate risks in achieving NatWest Group's objectives.

The effectiveness of NatWest Group's internal controls is reviewed regularly by the Board, the Group Audit Committee and the Group Board Risk Committee. In addition, the Board receives a risk management report at each scheduled Board meeting. Executive management committees in each of NatWest Group's businesses also receive regular reports on significant risks facing their business and how these are being controlled. Details of the bank's approach to risk management are given in the Risk & Capital Management section of Exhibit 15.2 of the Annual Report on Form 20-F.

Throughout 2022 work continued to deliver enhancements to the control environment relating to financial crime risk. NatWest Group takes its responsibility to prevent and detect financial crime extremely seriously and continues to make multi- year investments to strengthen and improve its overall financial crime framework with prevention systems and capabilities. NatWest Group also recognises the requirement to continue to invest in payments systems and remediate end of life systems in line with agreed prioritisation. A payment review was initiated in late 2022 to assess control enhancements in response to manual payment risk.

NatWest Group continued to make enhancements to other aspects of the wider control environment in 2022. This has included the implementation of end-to-end risk and control self-assessments with a strategic effort to focus on control automation. This is part of the broader enterprise-wide risk management framework activity, which will continue throughout 2023. NatWest Group continued to focus on the embedding of a strong risk culture to support a robust control environment.

The remediation of known control issues continued to be an important focus for both the Group Audit Committee and the Board Risk Committee during 2022. For further information on their oversight of remediation of the most significant issues, please refer to the Report of the Group Audit Committee and the Report of the Group Board Risk Committee. The Group Audit Committee has received confirmation that management has taken, or is taking, action to remedy significant failings or weaknesses identified through NatWest Group's control framework. The Group Audit Committee and the Group Board Risk Committee will continue to focus on such remediation activity, particularly in view of the transformation agenda.

While not being part of the bank's system of internal control, the Group's external auditors present to the Group Audit Committee reports that include details of any significant and material internal control deficiencies they have identified. Further, the system of internal controls is also subject to regulatory oversight in the UK and overseas. Additional details of regulatory oversight are given in the Risk & Capital Management section.

The control environment remained largely stable in 2022. There was continuing management focus on the delivery of regulatory programmes – including the internal transformation programme established in response to updated IRB regulation from the Prudential Regulation Authority (PRA) and the European Banking Authority (EBA) – as well as a review of the controls and processes relating to certain regulatory reporting. There was also significant focus on work to enhance controls relating to financial crime risks – including ongoing work to strengthen customer due diligence standards. The focus of the of NatWest Group in establishing and maintaining a robust risk culture made a valuable contribution to the overall control environment.

Management's report on internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for NatWest Group.

NatWest Group's internal control over financial reporting is a component of an overall system of internal control and is designed to provide reasonable assurance regarding the preparation, reliability and fair presentation of financial statements for external purposes in accordance with International Financial Reporting Standards (IFRS) and includes:

- Policies and procedures that relate to the maintenance of records that, in reasonable detail, fairly and accurately reflect the transactions and disposition of assets.
- Controls providing reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with IFRS, and that receipts and expenditures are being made only as authorised by management.
- Controls providing reasonable ass urance regarding the prevention or timely detection of unauthorised acquisition, use or disposition of assets that could have a material effect on the financial statements.

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.

Management has assessed the effectiveness of its internal control over financial reporting as of 31 December 2022 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in the 2013 publication of 'Internal Control - Integrated Framework'. Based on its assessment, management has concluded that, as of 31 December 2022, NatWest Group's internal control over financial reporting is effective.

The effectiveness of NatWest Group's internal control over financial reporting as of 31 December 2021 has been audited by Ernst & Young LLP, NatWest Group's independent registered public accounting firm. The report of the independent registered public accounting firm to the directors of NatWest Group plc expresses an unqualified opinion on NatWest Group's internal control over financial reporting as of the 31 December 2021.

Disclosure controls and procedures

As required by Exchange Act rules, management (including the Group CEO and Group CFO) have conducted an evaluation of the effectiveness and design of NatWest Group's disclosure controls and procedures (as defined in the Exchange Act rules) as at 31 December 2022. Based on this evaluation, management (including the Group CEO and Group CFO) concluded that NatWest Group plc's disclosure controls and procedures were effective as of the end of the period covered by this Annual Report on Form 20-F.

Changes in internal control

There was no change in NatWest Group's internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, NatWest Group's internal control over financial reporting.

The New York Stock Exchange

As a foreign private issuer with American Depository Shares representing ordinary shares, preference shares and debt securities listed on the New York Stock Exchange (the NYSE), NatWest Group plc is not required to comply with all of the NYSE corporate governance standards applicable to US domestic companies (the NYSE Standards) provided that it follows home country practice in lieu of the NYSE Standards and discloses any significant ways in which its corporate governance practices differ from the NYSE Standards. NatWest Group plc is also required to provide an Annual Written Affirmation to the NYSE of its compliance with the mandatory applicable NYSE Standards. In March 2022 NatWest Group plc submitted its most recent Annual Written Affirmation to the NYSE which confirmed NatWest Group plc's full compliance with the applicable provisions.

The Group Audit Committee fully complies with the mandatory provisions of the NYSE Standards (including by reference to the rules of the Exchange Act) that relate to the composition, responsibilities and operation of audit committees. More detailed information about the Group Audit Committee and its work during 2022 is set out in the Group Audit Committee report on pages 94 to 102.

The Board has reviewed its corporate governance arrangements and is satisfied that these are consistent with the NYSE Standards, subject to the following departures:

i. NYSE Standards require the majority of the Board to be independent. The NYSE Standards contain different tests from the Code for determining whether a director is independent. NatWest Group plc follows the Code's requirements in determining the independence of its directors and currently has eight independent non-executive directors, one of whom is the Senior Independent Director.

ii. The NYSE Standards require non-management directors to hold regular sessions without management present, and that independent directors meet at least once a year. The Code requires the Chairman to hold meetings with non- executive directors without the executives present and non-executive directors are to meet without the Chairman present at least once a year to appraise the Chairman's performance and NatWest Group plc complies with the requirements of the Code.

iii. The NYSE Standards require that the nominating/corporate governance committee of a listed company be composed entirely of independent directors. The Chairman of the Board is also the Chairman of the Group Nominations and Governance Committee, which is permitted under the Code (which requires that a majority of members of the committee should be independent non-executive directors). The terms of reference of the Group Nominations and Governance Committee differ in certain limited respects from the requirements set out in the NYSE Standards, including because the Group Nominations and Governance Committee does not have responsibility for overseeing the evaluation of management.

iv. The NYSE standards require that the compensation committee of a listed company be composed entirely of independent directors. Although the members of the Group Performance and Remuneration Committee are deemed independent in compliance with the provisions of the Code, the Board has not assessed the independence of the members of the Group RemCo and Group RemCo has not assessed the independence of any compensation consultant, legal counsel or other adviser, in each case, in accordance with the independence tests prescribed by the NYSE Standards. The NYSE Standards require that the compensation committee must have direct responsibility to review and approve the CEO's remuneration. As stated at the start of this Compliance report, in the case of NatWest Group plc, the Board rather than the Group RemCo reserves the authority to make the final determination of the remuneration of the CEO.

v. The NYSE Standards require listed companies to adopt and disclose corporate governance guidelines. Throughout the year ended 31 December 2022, NatWest Group plc has complied with all of the provisions of the Code (subject to the exceptions described above) and the Code does not require NatWest Group plc to disclose the full range of corporate governance guidelines with which it complies.

vi. The NYSE Standards require listed companies to adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. NatWest Group has adopted a code of conduct which is supplemented by a number of key policies and guidance dealing ith matters including, among others, anti-bribery and corruption, anti-money laundering, sanctions, confidentiality, inside information, health, safety and environment, conflicts of interest, market conduct and management records. This code of conduct applies to all officers and employees and is fully aligned to the PRA and FCA Conduct Rules which apply to all directors. The Code of Conduct is available to view on NatWest Group's website at natwestgroup.com.

This Compliance report forms part of the Corporate governance report and the Report of the directors.

Report of the directors

The directors present their report together with the audited accounts for the year ended 31 December 2022.

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

	Page/Note
Strategic report	
Our colleagues	46
Climate-related financial disclosures	58

Disclosures required pursuant to Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) ('2008 Regs') are located on the following pages:

Employee engagement (Paras 11 and 11A, Schedule 7, 2008 Regs):-

- Pages 36 to 41 (stakeholder engagement and section 172(1) statement)
- Page 46 (Colleagues)
- Pages to 86 (Corporate governance report, workforce engagement)

Engagement with suppliers, customers and others (Para 11B, Schedule 7, 2008 Regs):-

- Pages 36 to 41 (stakeholder engagement and section 172(1) statement)
- Page 84 (Corporate governance report, stakeholder engagement)

Group structure

During 2018, in preparation for ring-fencing a number of changes were made to the NatWest Group structure. Following these changes the company owns three main subsidiaries, NatWest Holdings Limited (the parent of the ring-fenced group which includes National Westminster Bank Plc, The Royal Bank of Scotland plc and Ulster Bank Ireland DAC), NatWest Markets Plc (the investment bank and the parent of NatWest Markets N.V.) and The Royal Bank of Scotland International (Holdings) Limited (the parent of The Royal Bank of Scotland International Limited).

Following placing and open offers in December 2008 and in April 2009, HM Treasury (HMT) owned approximately 70.3% of the enlarged ordinary share capital of the company. In December 2009, the company issued a further £25.5 billion of new capital to HMT in the form of B shares. HMT sold 630 million of its holding of the company's ordinary shares in August 2015. In October 2015 HMT converted its entire holding of 51 billion B shares into 5.1 billion new ordinary shares of £1 each in the company. HMT sold a further 925 million of its holding of the company's ordinary shares in June 2018.

In March 2021, the company carried out an off-market purchase of 591 million of its ordinary shares from HMT.

In May 2021, HMT sold 580 million ordinary shares through an accelerated book building process to institutional investors.

In July 2021, HMT announced its intention to sell part of its shareholding over a 12 month period from August 2021 via a trading plan, for up to 15% of the aggregate total trading volume. In June 2022 the trading plan was extended for a further 12 month term to August 2023.

In March 2022, the company carried out an off-market purchase of 550 million of its ordinary shares from HMT.

At 31 December 2022, HMT's holding in the total voting rights of the company was 45.97%. The percentage was correct as at the date of notification on 21 December 2022.

Activities

NatWest Group is engaged principally in providing a wide range of banking and other financial services. Further details of the organisational structure and business overview of NatWest Group, including the products and services provided by each of its operating segments and the markets in which they operate are contained in the Business review. Details of the strategy for delivering the company's objectives can be found in the Strategic report.

Results and dividends

UK company law provides that dividends can only be paid if a company has sufficient distributable profits available to cover the dividend. A company's distributable profits are its accumulated, realised profits not previously distributed or capitalised, less its accumulated, realised losses not previously written off in a reduction or re-organisation of capital. At 31 December 2022, NatWest Group plc's distributable profits were £33,134 million.

The profit attributable to the ordinary shareholders of NatWest Group plc for the year ended 31 December 2022 amounted to £3,340 million compared with a profit of £2,950 million for the year ended 31 December 2021, as set out in the consolidated income statement on page 25 of the Annual Report on Form 20-F.

In 2022 NatWest Group paid an interim dividend of £364 million, or 3.5p per ordinary share (2021 – £347 million, or 3p per ordinary share).

In addition, the company also paid a special dividend of £1,750 million, or 16.8p per ordinary share.

The company has announced that the directors have recommended a final dividend of £1.0 billion, or 10.0p per ordinary share (2021 – £844 million or 7.5p per ordinary share). The final dividend recommended by directors is subject to shareholders' approval at the Annual General Meeting on 25 April 2023.

If approved, payment will be made on 2 May 2023 to shareholders on the register at the close of business on 17 March 2023. The ex-dividend date will be 16 March 2023.

Subject to the above mentioned condition, the payment of interim dividends on ordinary shares is at the discretion of the Board.

Colleagues

As at 31 December 2022, NatWest Group employed 61,000 people (excluding temporary staff). Details of all related costs are included in Note 3 to the consolidated accounts.

Employment for disabled persons

NatWest Group makes workplace adjustments to support colleagues with disabilities to succeed. If a colleague becomes disabled NatWest Group will, wherever possible, make adjustments to support them in their existing role or re-deploy them to a more suitable alternative role.

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

Going concern

NatWest Group's business activities and financial position, the factors likely to affect its future development and performance and its objectives and policies in managing the financial risks to which it is exposed and its capital are discussed in the Business review. The risk factors which could materially affect NatWest Group's future results are set out on pages 127 to 148 of the Annual Report on Form-20F. NatWest Group's regulatory capital resources and significant developments in 2022 and anticipated future developments are detailed in the Capital, liquidity and funding section on pages 230 to 249. This section also describes NatWest Group's funding and liquidity profile, including changes in key metrics and the build up of liquidity reserves.

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

UK Code for Financial Reporting Disclosure

NatWest Group plc's 2022 financial statements have been prepared in compliance with the principles set out in the Code for Financial Reporting Disclosure published by UK Finance. The Code sets out five disclosure principles together with supporting guidance. The principles are that NatWest Group and other major UK banks will provide high quality, meaningful and decision-useful disclosures; review and enhance their financial instrument disclosures for key areas of interest to market participants; assess the applicability and relevance of good practice recommendations to their disclosures, acknowledging the importance of such guidance; seek to enhance the comparability of financial statement disclosures across the UK banking sector; and clearly differentiate in their annual reports between information that is audited and information that is unaudited.

Enhanced Disclosure Task Force (EDTF) and Disclosures on Expected Credit Losses (DECL) Taskforce recommendations

The EDTF, established by the Financial Stability Board, published its report 'Enhancing the Risk Disclosures of Banks' in October 2012, with an update in November 2015 covering IFRS 9 expected credit losses (ECL). The DECL Taskforce, jointly established by the Financial Conduct Authority, Financial Reporting Council and the Prudential Regulation Authority, published its phase 2 report recommendations in December 2019.

NatWest Group plc's 2022 Annual Report on Form 20-F and Pillar 3 Report reflect EDTF and have regard to DECL Taskforce recommendations.

Authority to repurchase shares

At the Annual General Meeting in 2022 shareholders authorised the company to make market purchases of up to 1,122,905,024 ordinary shares. The authority was amended at the General Meeting held on 25 August 2022 to preserve the position as if the share consolidation had not taken place and shareholders will be asked to renew the authority at the Annual General Meeting in 2023.

The directors utilised the authority obtained at the 2021 AGM to conduct a share buyback programme (the 'Programme') of up to £750 million, as announced to the market on 30 July 2021. The Programme's purpose is to reduce the ordinary share capital of NatWest Group. Taking into account the reduction in issued ordinary share capital which occurred as a result of the off-market buyback announced on 19 March 2021, the maximum number of ordinary shares that could be purchased by the company under the Programme was 1,157,583,542.

Phase 1 of the Programme commenced on 2 August 2021 and completed on 18 January 2022. 340,537,460 ordinary shares (nominal value £340,537,460) were purchased by the company at an average purchase price of 220.0199p per ordinary share for the total consideration of £749,250,031. Phase 2 of the Programme commenced on 21 February 2022 and completed on 15 July 2022. A further 346,835,822 ordinary shares (nominal value £346,835,822) were purchased by the company at an average purchase price of 216.2406p per ordinary share for the total consideration of £749,999,999 All of the purchased ordinary shares were cancelled, representing 11.23% of the company's issued ordinary share capital.

On 6 February 2019 the company held a General Meeting and shareholders approved a special resolution to give the company authority to make off-market purchases of up to 4.99% of its issued ordinary share capital in any 12-month period from HMT (or its nominee) at such times as the directors may determine is appropriate. Full details of the proposal are set out in the Circular and Notice of General Meeting available at natwestgroup.com. This authority was renewed at the Annual General Meeting in 2022 and amended at the General Meeting held on 25 August 2022 to preserve the position as if the share consolidation had not taken place. Shareholders will be asked to renew the authority at the Annual General Meeting in 2023.

The company utilised the authority it obtained at the 2020 AGM to make an off-market purchase of 590,730,325 ordinary shares (nominal value £590,730,325) in the company from HMT on 19 March 2021, at a price of 190.50p per ordinary share for the total consideration of £1,125,341,269, representing 4.86% of the company's issued ordinary share capital. The company cancelled 390,730,325 of the purchased ordinary shares and held the remaining 200,000,000 ordinary shares in treasury. The company has used a total of 76,513,524 treasury shares to satisfy the exercise of options and the vesting of share awards under the employee share plans and the balance of ordinary shares held in treasury as at 31 December 2022 was 114,011,084. The figure has been adjusted to reflect the 13 for 14 share consolidation on 30 August 2022.

The company utilised the authority it obtained at the 2021 AGM to make an off-market purchase of 549,851,147 ordinary shares (nominal value £549,851,147) in the company from HMT on 28 March 2022, at a price of 220.5p per ordinary share for the total consideration of £1,212,421,779, representing 4.91% of the company's issued ordinary share capital. The company cancelled all of the purchased ordinary shares.

At the 2021 Annual General Meeting, shareholders authorised the company to make an off-market purchase of preference shares in the company. In December 2021 the company used this authority to purchase 157,546 5.5% cumulative preference shares and 259,314 11% cumulative preference shares. The company cancelled all of the purchased preference shares. Shareholders will be asked to renew the authority at the Annual General Meeting in 2023.

Additional information

Where not provided elsewhere in the Report of the directors, the following additional information is required to be disclosed by Part 6 of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

The rights and obligations attached to the company's ordinary shares and preference shares are set out in our Articles of Association, copies of which can be obtained from Companies House in the UK or can be found at natwestgroup.com.

The cumulative preference shares represent less than 0.005% of the total voting rights of the company, the remainder being represented by the ordinary shares.

In a show of hands at a General Meeting of the company, every holder of ordinary shares and cumulative preference shares, present in person or by proxy and entitled to vote, shall have one vote.

On a poll, every holder of ordinary shares present in person or by proxy and entitled to vote, shall have four votes for every share held, and holders of cumulative preference shares shall have one vote for each 25p nominal amount held. The notices of Annual General Meetings and General Meetings specify the deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the meeting.

There are no restrictions on the transfer of ordinary shares in the company other than certain restrictions which may from time to time be imposed by laws and regulations (for example, insider trading laws). At the 2021 Annual General Meeting, shareholders gave authority to directors to offer a scrip dividend alternative on any dividend paid up to the conclusion of the Annual General Meeting in 2024. Pursuant to the UK Listing Rules, certain employees of the company require the approval of the company to deal in the company's shares.

The rules governing the powers of directors, including in relation to issuing or buying back shares and their appointment, are set out in our Articles of Association. It will be proposed at the 2023 Annual General Meeting that the directors' authorities to allot shares under the Companies Act 2006 (the Companies Act) be renewed. The Articles of Association may only be amended by a special resolution at a General Meeting of shareholders. The company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights. There are no persons holding securities carrying special rights with regard to control of the company. A number of the company's employee share plans include restrictions on transfers of shares while shares are subject to the plans. Note 3 sets out a summary of the plans.

Under the rules of certain employee share plans, voting rights are exercised by the Trustees of the plan on receipt of participants' instructions. If a participant does not submit an instruction to the Trustee no vote is registered.

For shares held in the company's other employee share trusts, accordance with investor protection guidelines, the Trustees abstain from voting. The Trustees would take independent advice before accepting any offer in respect of their shareholdings for the company in a takeover bid situation. The Trustees have chosen to waive their entitlement to the dividend on shares held by the Trusts.

A change of control of the company following a takeover bid may cause a number of agreements to which the company is party to take effect, alter or terminate. All of the company's employee share plans contain provisions relating to a change of control. In the context of the company as a whole, these agreements are not considered to be significant.

Directors

The names and brief biographical details of the current directors are shown on pages 72 to 75.

Howard Davies, Frank Dangeard, Patrick Flynn, Morten Friis, Yasmin Jetha, Katie Murray, Mike Rogers, Alison Rose, Mark Seligman and Lena Wilson all served throughout the year and to the date of signing of the financial statements.

Roisin Donnelly was appointed on 1 October 2022 and Robert Gillespie resigned from the Board on 15 December 2022.

Mike Rogers and Morten Friis have confirmed their intention to resign as non-executive directors on 25 April 2023 and 31 July 2023 respectively.

All directors of the company are required to stand for election or re-election annually by shareholders at the Annual General Meeting and, in accordance with the UK Listing Rules, the election or re-election of independent directors requires approval by all shareholders and also by independent shareholders. Mr Rogers will not be standing for re-election at the company's 2023 AGM, having confirmed his intention to resign on 25 April 2023.

Directors' interests

The interests of the directors in the shares of the company at 31 December 2022 are shown on page 150. None of the directors held an interest in the loan capital of the company or in the shares or loan capital of any of the subsidiary undertakings of the company, during the period from 1 January 2022 to 16 February 2023.

Directors' indemnities

In terms of section 236 of the Companies Act, Qualifying Third Party Indemnity Provisions have been issued by the company to its directors, members of the NatWest Group and NWH Executive Committees, individuals authorised by the PRA/FCA, certain directors and/or officers of NatWest Group subsidiaries and all trustees of NatWest Group pension schemes.

Controlling shareholder

In accordance with the UK Listing Rules, the company has entered into an agreement with HM Treasury (the 'Controlling Shareholder') which is intended to ensure that the Controlling Shareholder complies with the independence provisions set out in the UK Listing Rules. The company has complied with the independence provisions in the relationship agreement and as far as the company is aware the independence and procurement provisions in the relationship

agreement have been complied with in the period by the controlling shareholder.

Shareholdings

The table below shows shareholders that have notified NatWest Group that they hold more than 3% of the total voting rights of the company at 31 December 2022.

	Ordinary shares (millions)	% of issued share capital with voting rights held
Solicitor for the Affairs of His Majesty's Treasury as Nominee for His Majesty's Treasury	4,443	45.97
Norges Bank	323	3.07

(1) The ordinary shares figures above have been adjusted to reflect the 13 for 14 share consolidation on 30 August 2022 which left the percentages held by the shareholders unchanged. Percentages provided were correct at the date of notification on 21 December 2022 and 5 November 2021, respectively.

On 2 February 2023 a notification under Rule 5 of the Disclosure and Transparency Rules ('DTR') was received from HMT notifying that they held 4,254 million ordinary shares, representing 43.97% of the issued share capital with voting rights.

Listing rule 9.8.4

The information to be disclosed in the Annual Report on Form 20-F under LR 9.8.4, is set out in this Directors' report with the exception of details of contracts of significance under LR 9.8.4 (10) and (11) given in Material contracts on page 151 of the Annual Report on Form 20-F.

Political donations

At the Annual General Meeting in 2022, shareholders gave authority under Part 14 of the Companies Act 2006, for a period of one year, for the company (and its subsidiaries) to make political donations and incur political expenditure up to a maximum aggregate sum of £100,000. This authorisation was taken as a precaution only, as the company has a longstanding policy of not making political donations or incurring political expenditure within the ordinary meaning of those words.

During 2022, NatWest Group made no political donations, nor incurred any political expenditure in the UK or EU and it is not proposed that NatWest Group's longstanding policy of not making contributions to any political party be changed. Shareholders will be asked to renew this authorisation at the Annual General Meeting in 2023.

Directors' disclosure to auditors

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

a. so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and

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

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

Auditors

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

By order of the Board

Jan Cargill
Chief Governance Officer and Company Secretary
16 February 2023

NatWest Group plc
is registered in Scotland No. SC45551

Statement of directors' responsibilities

This statement should be read in conjunction with the responsibilities of the auditor set out in their report on pages 20 to 24.

The directors are responsible for the preparation of the Annual Report on Form 20-F. The directors are required to prepare Group financial statements, and as permitted by the Companies Act 2006 have elected to prepare company financial statements, for each financial year in accordance with UK adopted International Accounting Standards and International Financial Reporting Standards as issued by the International Accounting Standards Board. They are responsible for preparing financial statements that present fairly the financial position, financial performance and cash flows of NatWest Group.

In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of NatWest Group and to enable them to ensure that the Annual Report on Form 20-F complies with the Companies Act 2006. They are also responsible for safeguarding the assets of NatWest Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The directors confirm that to the best of their knowledge:

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

In addition, the directors are of the opinion that the Annual Report on Form 20-F, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position and performance, business model and strategy.

By order of the Board

Howard Davies
Chairman
16 February 2023

Alison Rose-Slade DBE
Group Chief Executive Officer

Katie Murray
Group Chief Financial Officer

Board of directors

Chairman
Howard Davies

Executive directors
Alison Rose-Slade DBE
Katie Murray

Non-executive directors
Frank Dangeard
Roisin Donnelly
Patrick Flynn
Morten Friis
Yasmin Jetha
Mike Rogers
Mark Seligman
Lena Wilson

Risk and capital management

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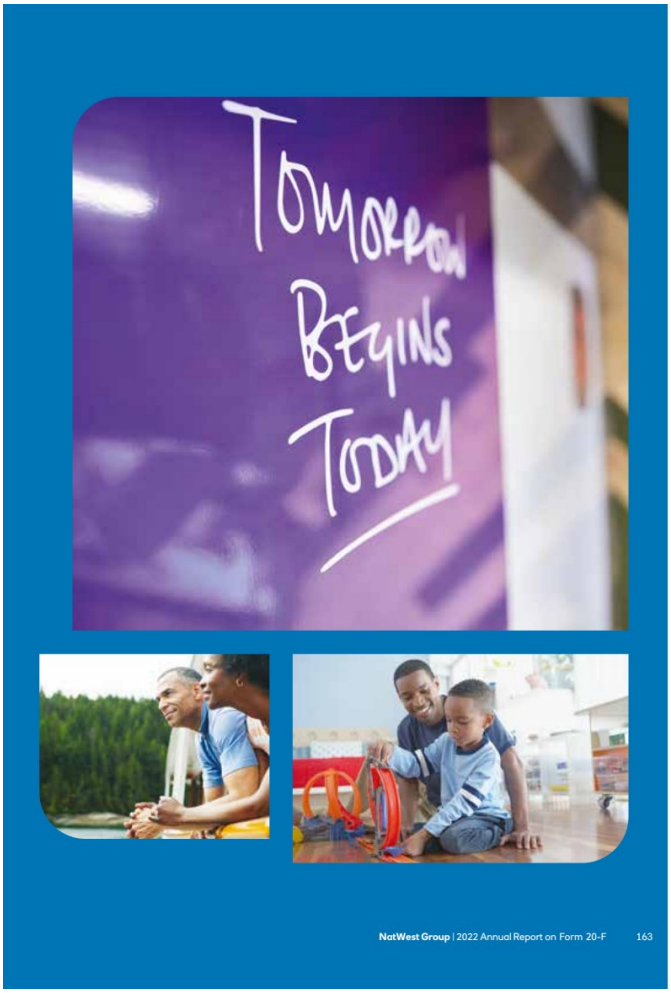
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TOMORROW
BEGINS
TODAY

Risk and capital management

Presentation of information

Where marked as audited in the section header, certain information in the Risk and capital management section (pages 162 to 269) is within the scope of the Independent auditor's report.

Risk management framework

Introduction

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

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

This seeks to ensure a consistent approach to risk management across NatWest Group and its subsidiaries. It aligns risk management with NatWest Group's overall strategic objectives.

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

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

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

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

Culture

Risk culture is at the heart of NatWest Group's risk management framework and its risk management practice. In 2022, the approach to risk culture was refreshed under the new banner of Intelligent Risk Taking to re-intensify focus on robust risk management behaviours and practices. NatWest Group expects leaders to act as role models for strong risk behaviours and practices building clarity, developing capability and motivating employees to reach the required standards set out in the Intelligent Risk Taking approach. Colleagues are expected to:

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

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

Training

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

Our Code

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

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

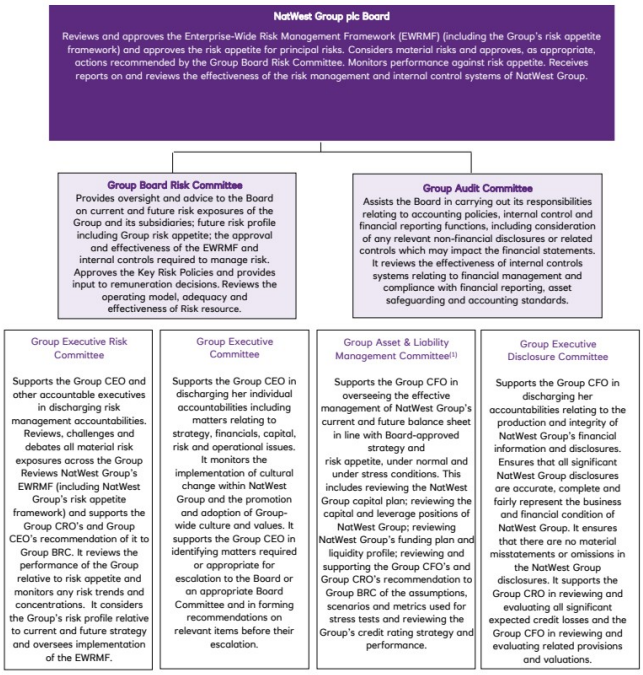
Where appropriate, if conduct falls short of NatWest Group's required standards, the accountability review process is used to assess how this should be reflected in pay outcomes for the individuals concerned (for more information on this process refer to page 130). The NatWest Group remuneration policy ensures that the remuneration arrangements for all employees reflect the principles and standards prescribed by the PRA rulebook and the FCA handbook. Any employee falling short of the expected standards would also be subject to internal disciplinary policies and procedures. If appropriate, the relevant authority would be notified.

Risk management framework continued

Governance

Committee structure

The diagram shows NatWest Group's risk committee structure in 2022 and the main purposes of each committee.



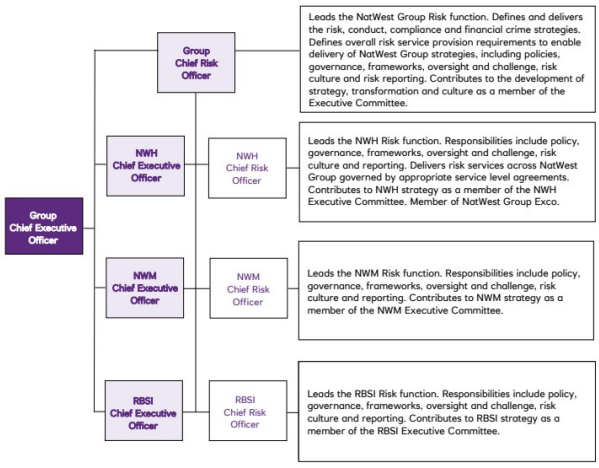
(1) In addition, the Group Technical Asset & Liability Management Committee, chaired by the Group Treasurer, provides oversight of capital and balance sheet management in line with approved risk appetite under normal and stress conditions. Reviews and challenges the financial strategy, risk management, balance sheet and remuneration and policy implications of the Group's pension schemes.

(2) The EDC ESG Disclosures Steering Group has been established by the Group CFO to review NatWest Group's Climate related and ESG Disclosures reports and contributions to any ESG related surveys on her behalf and making recommendations to Group EDC as required.

Risk management framework continued

Risk management structure

The diagram shows NatWest Group's risk management structure in 2022 and key risk management responsibilities.



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

Risk management framework continued

Three lines of defence

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

First line of defence

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

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

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

Second line of defence

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

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

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

Third line of defence

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

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

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

Risk appetite

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

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

Risk appetite framework

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

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

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

The Board reviews and approves the risk appetite framework annually.

Establishing risk appetite

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

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

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

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

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

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

Risk management framework continued

Identification and measurement

Identification and measurement within the risk management process comprises:

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

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

Mitigation

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

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

Testing and monitoring

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

Independent testing and monitoring is completed on principal risk processes and controls impacting the financial statements – within the scope of section 404.

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

Stress testing

Stress testing – capital management

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

Stress testing includes:

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

The process for stress testing consists of four broad stages:

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

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



Risk management framework continued

Specific areas that involve capital management include:

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

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

Capital sufficiency – going concern forward-looking view

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

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

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

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

Internal assessment of capital adequacy

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

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

Capital allocation

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

Governance

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

Stress testing – liquidity

Liquidity risk monitoring and contingency planning

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

Internal assessment of liquidity

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

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

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

Risk management framework continued

Stress testing – recovery and resolution planning

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

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

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

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

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

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

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

Stress testing – market risk

Non-traded market risk

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

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

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

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

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

Traded market risk

NatWest Group carries out regular market risk stress testing to identify vulnerabilities and potential losses in excess of, or not captured in, value-at-risk. The calculated stresses measure the impact of changes in risk factors on the fair values of the trading portfolios.

NatWest Group conducts historical, macroeconomic and vulnerability-based stress testing. Historical stress testing is a measure that is used for internal management. Using the historical simulation framework employed for value-at-risk, the current portfolio is stressed using historical data since 1 January 2005. This methodology simulates the impact of the 99.9 percentile loss that would be incurred by historical risk factor movements over the period, assuming variable holding periods specific to the risk factors and the businesses.

Risk management framework continued

Historical stress tests form part of the market risk limit framework and their results are reported regularly to senior management. Macroeconomic stress tests are carried out periodically as part of the bank-wide, cross-risk capital planning process. The scenario narratives are translated into risk factor shocks using historical events and insights by economists, risk managers and the first line.

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

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

Internal scenarios

During 2022, NatWest Group ran a number of internal scenarios developed in the immediate aftermath of Russia's invasion of Ukraine.

These scenarios considered different outcomes to the conflict, including an assumed broadening of the conflict, and how those might manifest in terms of macroeconomic impact. This included commodity market and associated inflationary pressures, supply chain impacts, financial sector linkages and broader knock-on impacts to the UK labour and asset markets. Impacts on operational aspects to NatWest Group were also considered.

Applying the macro-scenarios to NatWest Group's earnings, capital, liquidity and funding positions did not result in a breach of any regulatory thresholds.

Regulatory stress testing

The Bank of England returned to the annual cyclical scenario (ACS) stress test framework in 2022 and published the scenario on 26 September 2022. This follows two years of COVID-19 crisis-related stress testing and the decision to postpone the test in March following Russia's invasion of Ukraine. NatWest Group has participated in this stress test and the results will be published in summer 2023 and, along with other relevant information, will be used to help inform NatWest Group capital buffers (both the UK countercyclical capital buffer rate and PRA buffers).

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

The stress scenario is broadly similar to the 2019 ACS and more severe overall than the global financial crisis, with the key difference being elevated levels of inflation. Annual UK inflation averages around 11% over the first three years of the scenario, while peaking at 17% in early 2023 and does not begin to fall until the second half of the year.

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

Further details on the scenario and ACS stress test can be found at https://www.bankofengland.co.uk/stress-testing/2022/key-elements-of-the-2022-stress-test

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

NatWest Group also took part in the Bank of England's Climate Biennial Exploratory Scenario conducted in late 2021 and early 2022.

Credit risk

Definition (audited)

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

Sources of risk (audited)

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

Key developments in 2022

- Across both Personal and Wholesale, the credit profile remains stable, but the outlook is uncertain from inflationary pressure, compounded by rising interest rates and geopolitical tensions. NatWest Group has yet to see signs of financial stress materially affecting customers' ability to repay.
- Expected credit loss (ECL) reduced during 2022, reflecting the phased withdrawal of Ulster Bank RoI, plus continued positive trends in portfolio performance alongside a related net release of judgemental post model adjustments and write-off activity. Overall, ECL coverage decreased due to the withdrawal, a change in product mix and a reduction in judgemental post model adjustments which more than offset increases from the deteriorating economic outlook.
- Personal lending grew as a result of strong mortgage and resilient unsecured lending demand. Personal lending criteria were unwound to a level similar to pre-COVID-19 norms during 2022. Affordability assumptions remain under continuous review and adjustments were made to ensure new business continues to be assessed appropriately.
- In Wholesale, balance sheet reduction in 2022 compared to 2021 was mainly due to a decrease in central items held in the course of treasury related management activities. There was growth in Commercial & Institutional. Sector appetite is reviewed regularly and where appropriate adjusted for those sectors most affected by current economic and geopolitical conditions.
- A number of high materiality IFRS 9 models were redeveloped in 2022, most notably all probability of default (PD) and some loss given default (LGD) models for Personal lending and the two most material economic response models for Wholesale lending.
- NatWest Group continued to progress embedding climate change considerations in credit assessment and monitoring, including scenario analysis to assess the materiality of climate change risks.

Governance (audited)

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

Governance activities include:

- Defining credit risk appetite measures for the management of concentration risk and credit policy to establish the key causes of risk in the process of providing credit and the controls that must be in place to mitigate them.
- Approving and monitoring operational limits for business segments and credit limits for customers.
- Oversight of the first line of defence to ensure that credit risk remains within the appetite set by the Board and that controls are being operated adequately and effectively.
- Assessing the adequacy of ECL provisions including approving key IFRS 9 inputs (such as significant increase in credit risk (SICR) thresholds) and any necessary in-model and post model adjustments through NatWest Group and business unit provisions and model committees.
- Development and approval of credit grading models.

Risk appetite

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

Personal

The Personal credit risk appetite framework sets limits that control the quality and concentration of both existing and new business for each relevant business segment.

These risk appetite measures consider the segments' ability to grow sustainably and the level of losses expected under stress. Credit risk is further controlled through operational limits specific to customer or product characteristics.

Wholesale

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

Four formal frameworks are used, classifying, measuring and monitoring credit risk exposure across single name, sector and country concentrations and product and asset classes with heightened risk characteristics.

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

Credit policy standards are in place for both the Wholesale and Personal portfolios. They are expressed as a set of mandatory controls.

Identification and measurement

Credit stewardship (audited)

Risks are identified through relationship management and credit stewardship of customers and portfolios. Credit risk 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 PD is less than 100%) and defaulted non-performing loans as AQ10 or Stage 3 under IFRS 9 (where the PD is 100%). Loans are defined as defaulted when the payment status becomes 90 days past due, or earlier if there is clear evidence that the borrower is unlikely to repay, for example bankruptcy or insolvency.

Counterparty credit risk

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

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

Credit risk continued

Mitigation

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

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

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

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

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

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

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

Assessment and monitoring

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

Personal

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

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

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

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

Wholesale

Wholesale customers – including corporates, banks and other financial institutions – are grouped by industry sectors and geography as well as by product/asset class and are managed on an individual basis. Customers are aggregated as a single risk when sufficiently interconnected.

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.

In response to COVID-19, a new framework was introduced to categorise clients in a consistent manner across the Wholesale portfolio, based on the effect of COVID-19 on their financial position and outlook in relation to the sector risk appetite. This framework has been retained, updated and aligned with the Risk of Credit Loss framework (further details below) to consider viability impacts more generally beyond those directly related to COVID-19 and classification via the framework is now mandatory and must be refreshed at least annually. The framework extends to all Wholesale borrowing customers in assessing whether customers exhibit a SICR, if support is considered to be granting forbearance and the time it would take for customers to return to operating within transactional acceptance standards.

Credit risk continued

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

For all other transactions, credit is only granted to customers following joint approval by an approver from the business and the credit risk function or by two credit officers. The joint business and credit approvers act within a delegated approval authority under the Wholesale Credit Authorities Framework Policy. The level of delegated authority held by approvers is dependent on their experience and expertise with only a small number of senior executives holding the highest approval authority. Both business and credit approvers are accountable for the quality of each decision taken, although the credit risk approver holds ultimate sanctioning authority.

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

Credit grades (PD) and 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

Personal

Early problem identification

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

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

Collections

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

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

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

Recoveries

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

Wholesale

Early problem identification

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

The aligned Risk of Credit Loss and viability framework

This framework focuses on all Wholesale customers to provide early identification of credit deterioration, support intelligent risk-taking, ensure fair and consistent customer outcomes and provide key insights into Wholesale lending portfolios. Expert judgment is applied by experienced credit risk officers to classify cases into categories that reflect progressively deteriorating credit risk to NatWest Group. There are two classifications in the framework that apply to non-defaulted customers who are in financial stress – Heightened Monitoring and Risk of Credit Loss. For the purposes of provisioning, all exposures categorised as Heightened Monitoring or Risk of Credit Loss are categorised as Stage 2 and subject to a lifetime loss assessment. The framework also applies to those customers that have met NatWest Group's default criteria (AQ10 exposures). Defaulted exposures are categorised as Stage 3 impaired for provisioning purposes.

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

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

Credit risk continued

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

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

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

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

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

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

Restructuring

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

Forbearance (audited)

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

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

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

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

Types of forbearance

Personal

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

Wholesale

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

Monitoring of forbearance

Personal

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

Wholesale

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

Provisioning requirements on forbearance are detailed in the Provisioning for forbearance section.

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.

Credit risk continued

Impairment, provisioning and write-offs

(audited)

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

NatWest Group's IFRS 9 provisioning models, which use existing Basel models as a starting point, incorporate term structures and forward-looking information. Regulatory conservatism within the Basel 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 2.3 for further details.

IFRS 9 ECL model design principles (audited)

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

To meet IFRS 9 requirements, the PD, LGD and EAD parameters differ from their Pillar 1 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.
- Forward-looking – IFRS 9 PD estimates and, where appropriate, EAD and LGD estimates reflect forward-looking economic conditions.
- Lifetime measurement – IFRS 9 PD, LGD and EAD are provided as multi-period term structures up to exposure lifetimes instead of over a fixed one-year horizon.

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

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

PD estimates

Personal models

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

Wholesale models

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

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

LGD estimates

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

Personal

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

Wholesale

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

EAD estimates

Personal

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

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

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

Wholesale

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

Credit risk continued

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

Governance and post model adjustments (audited)

The IFRS 9 PD, EAD and LGD models are subject to NatWest Group's model risk policy that stipulates periodic model monitoring, periodic re-validation and defines approval procedures and authorities according to model materiality. Various post model adjustments were applied where management judged they were necessary to ensure an adequate level of overall ECL provision. All post model adjustments were subject to formal approval through provisioning governance, and were categorised as follows (business level commentary is provided below):

- Deferred model calibrations – ECL adjustments where PD model monitoring indicated that actual defaults were below estimated levels but where it was judged that an implied ECL release was not supportable due to the influence of government support schemes on default levels in the past two years. As a consequence, any potential ECL release was deferred and retained on the balance sheet until modelled ECL levels are affirmed by new model parallel runs or similar analyses.
- Economic uncertainty – ECL adjustments primarily arising from uncertainties associated with the high inflation environment as well as supply chain disruption, along with the residual effect of COVID-19 and government support schemes. In all cases, management judged that additional ECL was required until further credit performance data became available as the full effects of these issues matures.
- Other adjustments – ECL adjustments where it was judged that the modelled ECL required amendment.

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

Credit risk continued

ECL post model adjustments

The table below shows ECL post model adjustments.

	Retail Banking		Private Banking	Commercial & Institutional	Central items (1)	Total
2022	Mortgages £m	Other £m	£m	£m	£m	£m
Economic uncertainty	102	51	6	191	2	352
Other adjustments	8	20	—	16	15	59
Total	110	71	6	207	17	411
Of which:						
- Stage 1	*62*	*27*	*3*	*63*	*—*	*155*
- Stage 2	*32*	*44*	*3*	*139*	*16*	*234*
- Stage 3	*16*	*—*	*—*	*5*	*1*	*22*
2021						
Deferred model calibrations	58	97	—	62	2	219
Economic uncertainty	60	99	5	391	29	584
Other adjustments	37	—	—	5	156	198
Total	155	196	5	458	187	1,001
Of which:						
- Stage 1	*9*	*5*	*—*	*15*	*5*	34
- Stage 2	*126*	*164*	*5*	*443*	*33*	771
- Stage 3	*20*	*27*	*—*	*—*	*149*	196

(1) Excludes £18 million (2021 – £49 million) of post model adjustments (other £18 million (2021 – mortgages £4 million; other £45 million)) for Ulster Bank RoI disclosed as transfers to disposal groups.

Post model adjustments have reduced significantly since 31 December 2021, with notable shifts in all categories. This reflected:

- The reclassification of the Ulster Bank RoI mortgage portfolio, in Q3 2022, from amortised cost to fair value through profit or loss and continued activity on the strategic shift to exit the market.
- Removal of deferred model calibration post model adjustments following the implementation of new models as well as COVID-19 adjustments no longer being required.
- Economic uncertainty adjustments significantly reduced as many COVID-19 adjustments were no longer required, plus the deteriorating economic outlook and improved modelling approaches, resulted in increases in modelled ECL.

- Retail Banking – The judgemental post model adjustment for deferred model calibrations of £155 million held at 31 December 2021 was no longer required in the second half of 2022. This was due, firstly, to the removal of the mortgage element because of the implementation of a new IFRS 9 PD model in Q1 2022. Furthermore, the implementation of new PD models on unsecured portfolios implemented at H1 2022 negated the need for management judgement on PD calibration adjustments.

The post model adjustments for economic uncertainty were held at a broadly consistent level to 31 December 2021, totalling £153 million (2021 – £159 million). The primary element of the economic uncertainty adjustment was a £127 million ECL uplift to capture the risk on segments of the Retail portfolio that are more susceptible to the effects of a high inflation environment and the impacts on affordability.

Credit risk continued

This focuses on key affordability lenses, including customers with lower incomes in fuel poverty, over-indebted borrowers and customers vulnerable to a potential mortgage rate shock impact on their affordability. This adjustment superseded the previously held £26 million for COVID-19 payment holiday high-risk customers and the £69 million judgemental ECL release holdback at 31 December 2021. The current post model adjustment allocates more ECL to Stage 1 given the forward-looking nature of the risks on affordability driven by the high inflation environment, whereas the previous COVID-19 post model adjustments were focused on Stage 2, due to specific customer events (for example, high-risk payment holiday cases migrated into Stage 2).

Other judgmental overlays included a £20 million uplift to reflect forward-looking provisions relating to credit cards EAD and limit utilisation modelling considerations. There is also an ECL adjustment for higher risk residential interest only mortgages of £7 million. The £14 million post model adjustment previously held for cladding risk was removed due to management's view on the positive developments in this segment.

Commercial & Institutional – The post model adjustment for economic uncertainty reduced from £391 million to £191 million during the year. It included an overlay of £108 million to cover the residual risks from COVID-19, including the risk that government support schemes could affect future recoveries and concerns surrounding associated debt, to customers that have utilised government support schemes. Inflation and supply chain issues present significant headwinds for a number of sectors which are not fully captured in the models. An £83 million mechanistic adjustment, via a sector-level downgrade, was applied to the sectors that were considered most at risk from these headwinds.

The judgemental overlay for deferred model calibrations on the business banking portfolio was removed as COVID-19 no longer impedes the mechanistic modelling approach.

Other adjustments included an overlay of £13 million to mitigate the effect of operational timing delays in the identification and flagging of a SICR.

Significant increase in credit risk (SICR)

(audited)

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

The framework comprises the following elements:

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

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

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

Credit risk continued

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.

Provisioning for forbearance (audited)

Personal

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

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

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

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

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

Wholesale

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

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

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

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

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

Asset lifetimes (audited)

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

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

In the case of credit cards, the most significant judgment is to reflect the operational practice of card reissuance and the associated credit assessment as enabling a formal re-origination trigger. As a consequence, a capped lifetime approach of up to 36 months is used on credit card balances. If the approach was uncapped the ECL impact is estimated at approximately £80 million (2021 – £70 million). However, credit card balances originated under the 0% balance transfer product, and representing approximately 19% of performing card balances, have their ECL calculated on a behavioural lifetime approach as opposed to being capped at a maximum of three years.

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

Credit risk continued

Economic loss drivers (audited)

Introduction

The portfolio segmentation and selection of economic loss drivers for IFRS 9 follow closely 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 judgment.

The most material economic loss drivers are shown in the table below.

Portfolio	Economic loss drivers
UK retail mortgages	UK unemployment rate, sterling swap rate, UK house price index, UK household debt to income
UK retail unsecured	UK unemployment rate, sterling swap rate, UK household debt to income
UK corporates	UK stock price index, UK GDP, Bank of England base rate
UK commercial real estate	UK stock price index, UK commercial property price index, UK GDP, Bank of England base rate

(1) This is not an exhaustive list of economic loss drivers but shows the most material drivers for the most significant portfolios.

Economic scenarios

At 31 December 2022, 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 related to high inflation resulting in a fall in real household income, economic slowdown, a rise in unemployment and asset price declines.

For 2022, 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 a robust growth through 2023 as consumers dip into excess savings built up since the COVID-19 pandemic and further helped by fiscal support and strong business investment. The labour market remains resilient, with the unemployment rate remaining below pre-COVID-19 levels. Inflation retraces sharply and that does not necessitate significantly more tightening. The housing market slows down compared to the previous year but still remains robust.

Base case – High inflation and significant monetary policy tightening leads to a mild recession in 2023. Fiscal support remains key in containing the impact. Unemployment rate rises modestly but job losses are contained. Inflation moderates over medium-term and falls to the target levels in 2024. Housing market experiences price decline and lower activity but the extent of the decline is lower than that experienced during prior stresses.

Since 31 December 2021, the outlook has deteriorated as energy prices surged and cost of living crisis intensified. As a result, the base case is more pessimistic. The mild recession in 2023 contrasts with last year's assumption of a muted growth. House price correction contrasts with previous year's assumptions of a modest growth. In previous scenario, unemployment rate was expected to increase very modestly while inflation and interest rate rises last year were also relatively muted.

Downside – Inflation rises on the back of further energy price spikes. The high inflation environment leads to the economy falling under recession. As demand dries up, inflation rapidly declines. Policy rates are raised initially but then quickly eased to assist in recovery. Unemployment is more than the base case scenario while house prices experience declines comparable to previous episodes of stress.

Extreme downside – This scenario assumes high and persistent inflation. Households see the highest recorded decline in real income. Policy rate rises to levels last seen in early 2000. Resulting economic recession is deep and leads to widespread job losses. House prices lose approximately a third of their value while unemployment rate rises to level above those seen during the 2008 financial crisis.

The previous year's extreme downside also included a deep recession, labour market deterioration and asset price falls, but the current scenario explores these risks in a high inflation, high rates environment.

Credit risk continued

Economic loss drivers (audited)

The tables and commentary below provide details of the key economic loss drivers under the four scenarios.

The main macroeconomic variables for each of the four scenarios used for ECL modelling are set out in the main macroeconomic variables table below. The compound annual growth rate (CAGR) for GDP is shown. It also shows the five-year average for unemployment and the Bank of England base rate. The house price index and commercial real estate figures show the total change in each asset over five years.

Main macroeconomic variables

	2022					2021				
Five-year summary	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
GDP - CAGR	1.6	0.8	0.2	(0.2)	0.7	2.4	1.7	1.4	0.6	1.8
Unemployment - average	3.9	4.6	5.1	7.2	5.0	3.5	4.2	4.8	6.7	4.2
House price index - total change	21.5	(1.3)	(6.0)	(22.4)	(1.3)	22.7	12.1	4.3	(5.3)	12.8
Bank of England base rate - average	2.6	3.3	1.5	4.9	3.1	1.5	0.8	0.7	(0.5)	0.9
Commercial real estate price - total change	(0.1)	(14.4)	(17.2)	(38.3)	(16.1)	18.2	7.2	5.5	(6.4)	9.5
Consumer price index - CAGR	2.4	3.0	3.1	7.0	3.6	2.7	2.5	3.1	1.5	2.6
UK stock price index - total change	22.6	13.9	1.8	(8.5)	9.5	36.6	24.9	12.5	0.2	24.7
World GDP - CAGR	3.7	3.3	1.6	1.0	2.7	3.5	3.2	2.6	0.6	3.1
Probability weight	18.6	45.0	20.8	15.6		30.0	45.0	20.0	5.0	

(1) The five year period starts after Q3 2022 for 31 December 2022 and Q3 2021 for 31 December 2021.
(2) CAGR and total change figures are not comparable with 31 December 2021 data, as the starting quarters differ.

Probability weightings of scenarios

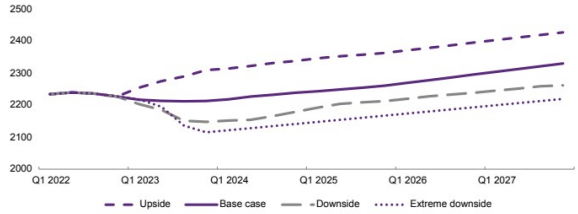
A subjective approach for assigning probability weight was used during COVID-19 due to the scale of the economic effect of COVID-19 and the range of recovery paths. Similarly, a subjective approach was used at 30 September 2022, to reflect the deteriorating outlook and shifting balance of risks in the given set of scenarios. However, NatWest Group's quantitative approach to IFRS 9 multiple economic scenarios (MES) involves selecting a suitable set of discrete scenarios to characterise the distribution of risks in the economic outlook and assigning appropriate probability weights. This quantitative approach has been reinstated and is used for 31 December 2022.

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

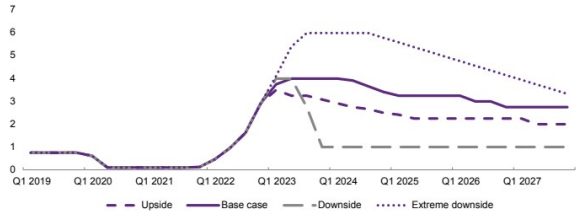
The assigned probability weights were judged to be aligned with the subjective assessment of balance of the risks in the economy. Since 31 December 2021, high inflation posed significant challenge to the economy and there is considerable uncertainty to the economic outlook, with respect to persistence and range of outcomes on inflation and its subsequent effects on household real income and economic activity. Given that backdrop, NatWest Group judges it appropriate to assign higher probability weights on downside-biased scenarios than at 31 December 2021. 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 18.6% weighting was applied to the upside scenario, a 45.0% weighting applied to the base case scenario, a 20.8% weighting applied to the downside scenario and a 15.6% weighting applied to the extreme downside scenario. Compared to 30 June 2022, the probability weights were broadly similar, but with additional modest downside skew.

Credit risk continued
Economic loss drivers

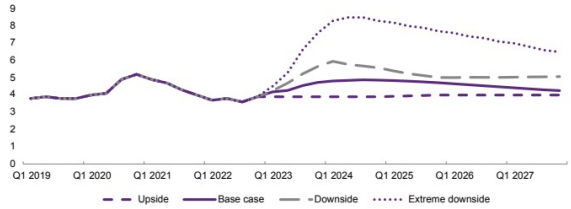
UK gross domestic product (£bn)



Bank of England base rate (%)



UK unemployment rate (%)



Credit risk continued

Economic loss drivers (audited)

Annual figures

GDP - annual growth

	Upside	Base case	Downside	Extreme downside	Weighted average
	%	%	%	%	%
2022	4.4	4.4	4.4	4.4	4.4
2023	2.2	(0.9)	(2.8)	(3.1)	(1.1)
2024	1.9	0.7	(0.4)	(1.6)	0.4
2025	1.2	1.0	1.9	1.2	1.3
2026	1.2	1.4	1.2	1.2	1.3
2027	1.4	1.5	1.1	1.2	1.4

Commercial real estate price - four quarter change

	Upside	Base case	Downside	Extreme downside	Weighted average
	%	%	%	%	%
2022	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)
2023	2.1	(8.4)	(19.7)	(22.4)	(11.0)
2024	1.9	(0.5)	2.8	(29.1)	(3.2)
2025	2.7	1.3	3.7	6.7	2.6
2026	2.2	1.0	3.8	8.5	2.6
2027	0.6	1.0	2.3	8.6	2.0

Unemployment rate - annual average

	Upside	Base case	Downside	Extreme downside	Weighted average
	%	%	%	%	%
2022	3.8	3.8	3.8	3.8	3.8
2023	3.9	4.4	5.0	6.0	4.7
2024	3.9	4.9	5.7	8.4	5.4
2025	4.0	4.8	5.2	8.0	5.2
2026	4.0	4.6	5.0	7.4	5.0
2027	4.0	4.3	5.1	6.7	4.8

Consumer price index - four quarter change

	Upside	Base case	Downside	Extreme downside	Weighted average
	%	%	%	%	%
2022	11.2	11.2	11.2	11.2	11.2
2023	2.2	3.7	6.0	17.0	6.0
2024	1.0	2.7	1.0	8.8	3.1
2025	2.0	2.0	2.0	2.7	2.1
2026	2.0	1.9	2.0	2.3	2.0
2027	2.0	1.9	2.0	2.0	2.0

House price index - four quarter change

	Upside	Base case	Downside	Extreme downside	Weighted average
	%	%	%	%	%
2022	6.9	6.9	6.9	6.9	6.9
2023	7.5	(7.8)	(13.7)	(10.4)	(6.6)
2024	4.5	(0.9)	(7.7)	(15.2)	(3.2)
2025	3.0	2.9	4.8	(8.3)	1.8
2026	3.5	3.4	8.3	7.2	4.8
2027	3.4	3.4	6.3	6.6	4.3

UK stock price index - four quarter change

	Upside	Base case	Downside	Extreme downside	Weighted average
	%	%	%	%	%
2022	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)
2023	9.1	4.1	(20.6)	(45.0)	(7.8)
2024	4.0	1.9	9.7	24.9	5.9
2025	4.5	4.0	8.8	16.7	6.4
2026	4.9	4.4	7.0	11.0	5.8
2027	4.0	4.3	6.6	9.9	5.4

Bank of England base rate - annual average

	Upside	Base case	Downside	Extreme downside	Weighted average
	%	%	%	%	%
2022	1.49	1.49	1.49	1.49	1.49
2023	3.27	3.94	2.94	5.38	3.83
2024	2.71	3.75	1.00	5.95	3.33
2025	2.29	3.25	1.00	5.28	2.92
2026	2.25	3.00	1.00	4.46	2.67
2027	2.06	2.75	1.00	3.64	2.40

Worst points

	31 December 2022					31 December 2021				
	Downside		Extreme downside		Weighted average	Downside		Extreme downside		Weighted average
	%	Quarter	%	Quarter	%	%	Quarter	%	Quarter	%
GDP	(3.9)	Q4 2023	(5.4)	Q4 2023	(1.5)	(1.8)	Q1 2022	(7.9)	Q1 2022	—
Unemployment rate (peak)	6.0	Q1 2024	8.5	Q3 2024	5.4	5.4	Q1 2023	9.4	Q4 2022	4.5
House price index	(21.3)	Q1 2025	(31.7)	Q3 2025	(10.6)	(3.0)	Q3 2023	(26.0)	Q2 2023	—
Bank of England base rate	4.0	Q1 2023	6.0	Q1 2024	4.1	1.5	Q4 2022	(0.5)	Q2 2022	1.2
Commercial real estate price	(26.8)	Q4 2023	(50.3)	Q3 2024	(21.8)	(2.5)	Q1 2022	(29.8)	Q3 2022	—
Consumer price index	15.7	Q1 2023	17.0	Q4 2023	11.7	7.9	Q4 2022	4.3	Q1 2022	5.5
UK stock price index	(24.0)	Q4 2023	(47.3)	Q4 2023	(11.7)	(12.2)	Q1 2022	(37.1)	Q2 2022	(1.2)

(1) For the unemployment rate, the figures show the peak levels. For the Bank of England base rate, the figures show highest or lowest levels. For the consumer price index, the figures show the highest annual percentage change. For other parameters, the figures show falls relative to the starting period. The calculations are performed over five years, with a starting point of Q3 2022 for 31 December 2022 scenarios.

Credit risk continued

Economic loss drivers (audited)

Use of the scenarios in Personal lending

Personal lending follows a discrete scenario approach. The PD and LGD values for each discrete scenario are calculated using product specific economic response models. Each account has a PD and LGD calculated as probability weighted averages across the suite of economic scenarios.

Use of the scenarios in Wholesale lending

The Wholesale lending ECL methodology is based on the concept of CCIs. The CCIs represent, similar to the exogenous component in Personal, all relevant economic loss drivers for a region/industry segment aggregated into a single index value that describes the loss rate conditions in the respective segment relative to its long-run average. A CCI value of zero corresponds to loss rates at long-run average levels, a positive CCI value corresponds to loss rates below long run average levels and a negative CCI value corresponds to loss rates above long-run average levels.

The individual economic scenarios are translated into forward-looking projections of CCIs using a set of econometric models. Subsequently the CCI projections for the individual scenarios are averaged into a single central CCI projection according to the given scenario probabilities. The central CCI projection is then overlaid with an additional mean reversion assumption to gradually revert to the long-run average CCI value of zero in the outer years of the projection horizon.

Finally, ECL is calculated using a Monte Carlo approach by averaging PD and LGD values arising from many CCI paths simulated around the central CCI projection.

The rationale for the Wholesale approach is the long-standing observation that loss rates in Wholesale portfolios tend to follow regular cycles. This allows NatWest Group to enrich the range and depth of future economic conditions embedded in the final ECL beyond what would be obtained from using the discrete macro-economic scenarios alone.

Business Banking, while part of the Wholesale segment for reporting purposes, utilises the Personal lending rather than the Wholesale lending methodology.

UK economic uncertainty

The high inflation environment and supply chain disruption are presenting significant headwinds for some businesses and sectors. 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 2023. NatWest Group has considered where these are most likely to affect the customer base. Furthermore, the rising cost of borrowing during 2022 for both businesses and consumers presents an additional affordability challenge for many borrowers.

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

Credit risk continued

Economic loss drivers (audited)

Model monitoring and enhancement

Throughout 2022, default rates in the UK Personal and Wholesale portfolios moderately increased but remained generally at, or somewhat below, pre-COVID-19 levels. This is based on a normalised view removing the effects of the new definition of default, introduced from 1 January 2022, in accordance with new prudential regulation. As in 2021, model recalibrations to adjust for overprediction have been deferred where applicable, based on the judgment that default rate actuals may still be supressed as a result of government support provided throughout COVID-19.

The suite of UK Personal PD models and some Personal LGD models were redeveloped in 2022 removing the need for a number of previously applied post model ECL adjustments to account for model weaknesses.

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

The economic response models for Personal and Wholesale do not include direct inflation drivers, due to low inflation seen throughout the data history available for modelling (typically starting in early 2000s with some variation across products).

The effect of inflation is deemed to be partially reflected through other drivers present in the models, especially in Wholesale lending, where new models with a higher weight on stock price indices were introduced for the most material portfolios.

As detailed in the Governance and post model adjustments section, ECL adjustments were applied where management judged inflation risk was not fully reflected through the models.

The use of direct inflation drivers in the economic response models will be reviewed considering additional credit outcome data in 2023.

Government guarantees

A number of support schemes were introduced in response to COVID-19 with the UK government guaranteeing part of the loan. The Bounce Back Loan Scheme is 100% guaranteed. For the Coronavirus Business Interruption Loan Scheme and the Coronavirus Large Business Interruption Loan Scheme the government guarantee is 80%. NatWest Group recognises lower LGDs for these lending products as a result, with 0% applied to the government-guaranteed part of the exposure. NatWest Group does not directly adjust the measurement of PD due to the government guarantee and continues to move exposures into Stage 2 and Stage 3 where a significant deterioration in credit risk or a default is identified.

Wholesale support schemes*

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

	Gross carrying amount								ECL on associated debt		
	BBL				Associated debt						
31 December 2022	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m
Wholesale											
Property	1,029	197	51	1,277	908	217	61	1,186	10	15	27
Financial institutions	24	4	—	28	9	2	—	11	—	—	1
Sovereigns	5	1	1	7	2	—	—	2	—	—	—
Corporate	3,165	629	338	4,132	2,302	872	116	3,290	26	56	69
Of which:											
Agriculture	*221*	*74*	*4*	*299*	*819*	*297*	*22*	*1,138*	*6*	*14*	*11*
Airlines and aerospace	*3*	*1*	*—*	*4*	*—*	*1*	*—*	*1*	*—*	*—*	*—*
Automotive	*221*	*34*	*10*	*265*	*100*	*37*	*5*	*142*	*1*	*2*	*3*
Chemicals	*6*	*1*	*—*	*7*	*9*	*1*	*—*	*10*	*—*	*—*	*—*
Health	*165*	*23*	*4*	*192*	*271*	*92*	*9*	*372*	*2*	*4*	*4*
Industrials	*131*	*21*	*5*	*157*	*77*	*20*	*4*	*101*	*1*	*2*	*2*
Land transport & logistics	*122*	*25*	*8*	*155*	*51*	*16*	*4*	*71*	*1*	*2*	*3*
Leisure	*471*	*108*	*28*	*607*	*336*	*161*	*27*	*524*	*5*	*12*	*16*
Mining & metals	*5*	*1*	*—*	*6*	*5*	*1*	*—*	*6*	*—*	*—*	*—*
Oil and gas	*6*	*1*	*—*	*7*	*2*	*2*	*—*	*4*	*—*	*—*	*—*
Power utilities	*3*	*1*	*—*	*4*	*3*	*4*	*—*	*7*	*—*	*—*	*—*
Retail	*554*	*102*	*26*	*682*	*283*	*94*	*14*	*391*	*4*	*7*	*10*
Shipping	*2*	*—*	*—*	*2*	*1*	*3*	*—*	*4*	*—*	*—*	*—*
Water & waste	*15*	*2*	*1*	*18*	*10*	*3*	*—*	*13*	*—*	*—*	*—*
Total	4,223	831	390	5,444	3,221	1,091	177	4,489	36	71	97

Credit risk continued

Economic loss drivers (audited)

	Gross carrying amount								ECL on associated debt		
	BBL				Associated debt						
31 December 2021	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m
Wholesale											
Property	1,480	218	99	1,797	1,232	165	55	1,452	3	13	18
Financial institutions	33	5	1	39	9	20	3	32	—	1	—
Sovereigns	7	1	—	8	2	—	—	2	—	—	—
Corporate	4,593	703	334	5,630	2,481	1,087	84	3,652	10	66	34
Of which:											
Agriculture	*302*	*86*	*6*	*394*	*827*	*396*	*14*	*1,237*	*3*	*17*	*4*
Airlines and aerospace	*5*	*1*	*1*	*7*	*1*	*1*	—	*2*	—	—	—
Automotive	*309*	*43*	*21*	*373*	*119*	*39*	*2*	*160*	*1*	*2*	*1*
Chemicals	*10*	*1*	—	*11*	*6*	*1*	—	*7*	—	—	—
Health	*233*	*26*	*7*	*266*	*287*	*131*	*13*	*431*	*1*	*7*	*3*
Industrials	*181*	*23*	*8*	*212*	*79*	*25*	*2*	*106*	—	*2*	*1*
Land transport & logistics	*180*	*32*	*19*	*231*	*57*	*26*	*2*	*85*	—	*2*	*1*
Leisure	*706*	*122*	*55*	*883*	*367*	*208*	*25*	*600*	*1*	*15*	*9*
Mining & metals	*6*	*1*	*1*	*8*	*6*	*1*	—	*7*	—	—	—
Oil and gas	*8*	*2*	*1*	*11*	*3*	*1*	—	*4*	—	—	—
Power utilities	*4*	*1*	—	*5*	*4*	*4*	—	*8*	—	—	—
Retail	*800*	*109*	*47*	*956*	*310*	*127*	*8*	*445*	*2*	*7*	*4*
Shipping	*3*	—	—	*3*	*3*	*3*	—	*6*	—	—	—
Water & waste	*23*	*3*	*1*	*27*	*11*	*4*	—	*15*	—	—	—
Total	6,113	927	434	7,474	3,724	1,272	142	5,138	13	80	52

*Not within audit scope.

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 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 2022. 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.

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

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

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

Credit risk continued

Measurement uncertainty and ECL sensitivity analysis (audited)

2022	Actual	Base scenario	Moderate upside scenario	Moderate downside scenario	Extreme downside scenario
Stage 1 modelled loans (£m)					
Retail Banking - mortgages	163,705	164,479	170,648	162,649	152,339
Retail Banking - unsecured	7,845	8,032	8,589	7,772	6,375
Wholesale - property	26,748	27,626	28,175	25,750	17,447
Wholesale - non-property	106,837	112,045	115,167	100,159	79,525
	305,135	312,182	322,579	296,330	255,686
Stage 1 modelled ECL (£m)					
Retail Banking - mortgages	71	72	76	70	65
Retail Banking - unsecured	172	175	176	176	141
Wholesale - property	107	81	63	135	130
Wholesale - non-property	250	233	204	287	292
	600	561	519	668	628
Stage 1 coverage (%)					
Retail Banking - mortgages	0.04%	0.04%	0.04%	0.04%	0.04%
Retail Banking - unsecured	2.19%	2.18%	2.05%	2.26%	2.21%
Wholesale - property	0.40%	0.29%	0.22%	0.52%	0.75%
Wholesale - non-property	0.23%	0.21%	0.18%	0.29%	0.37%
	0.20%	0.18%	0.16%	0.23%	0.25%
Stage 2 modelled loans (£m)					
Retail Banking - mortgages	18,819	18,045	11,876	19,875	30,185
Retail Banking - unsecured	3,126	2,939	2,382	3,199	4,596
Wholesale - property	4,411	3,533	2,984	5,409	13,712
Wholesale - non-property	20,660	15,452	12,330	27,338	47,972
	47,016	39,969	29,572	55,821	96,465
Stage 2 modelled ECL (£m)					
Retail Banking - mortgages	61	57	40	65	97
Retail Banking - unsecured	389	373	304	398	553
Wholesale - property	105	77	51	134	573
Wholesale - non-property	440	311	236	523	1,309
	995	818	631	1,120	2,532
Stage 2 coverage (%)					
Retail Banking - mortgages	0.32%	0.32%	0.34%	0.33%	0.32%
Retail Banking - unsecured	12.44%	12.69%	12.76%	12.44%	12.03%
Wholesale - property	2.38%	2.18%	1.71%	2.48%	4.18%
Wholesale - non-property	2.13%	2.01%	1.91%	1.91%	2.73%
	2.12%	2.05%	2.13%	2.01%	2.62%
Stage 1 and Stage 2 modelled loans (£m)					
Retail Banking - mortgages	182,524	182,524	182,524	182,524	182,524
Retail Banking - unsecured	10,971	10,971	10,971	10,971	10,971
Wholesale - property	31,159	31,159	31,159	31,159	31,159
Wholesale - non-property	127,497	127,497	127,497	127,497	127,497
	352,151	352,151	352,151	352,151	352,151
Stage 1 and Stage 2 modelled ECL (£m)					
Retail Banking - Mortgages	132	129	116	135	162
Retail Banking - Unsecured	561	548	480	574	694
Wholesale - property	212	158	114	269	703
Wholesale - non-property	690	544	440	810	1,601
	1,595	1,379	1,150	1,788	3,160
Stage 1 and Stage 2 coverage (%)					
Retail Banking - Mortgages	0.07%	0.07%	0.06%	0.07%	0.09%
Retail Banking - Unsecured	5.11%	4.99%	4.38%	5.23%	6.33%
Wholesale - property	0.68%	0.51%	0.37%	0.86%	2.26%
Wholesale - non-property	0.54%	0.43%	0.35%	0.64%	1.26%
	0.45%	0.39%	0.33%	0.51%	0.90%
Reconciliation to Stage 1 and Stage 2 ECL (£m)					
ECL on modelled exposure	1,595	1,379	1,150	1,788	3,160
ECL on UBIDAC modelled exposures	39	39	39	39	39
ECL on non-modelled exposures	41	41	41	41	41
Total Stage 1 and Stage 2 ECL (£m)	1,675	1,459	1,230	1,868	3,240
Variance to actual total Stage 1 and Stage 2 ECL (£m)		(216)	(445)	193	1,565

Measurement uncertainty and ECL sensitivity analysis continued (audited)

2022	Actual	Base scenario	Moderate upside scenario	Moderate downside scenario	Extreme downside scenario
Reconciliation to Stage 1 and Stage 2 Flow Exposure (£m)					
Modelled loans	352,151	352,151	352,151	352,151	352,151
UBIDAC loans	4,171	4,171	4,171	4,171	4,171
Non-modelled loans	21,566	21,566	21,566	21,566	21,566
Other asset classes	178,133	178,133	178,133	178,133	178,133

(1) Variations in future undrawn exposure values across the scenarios are modelled, however the exposure position reported is that used to calculate modelled ECL as at 31 December 2022 and therefore does not include variation in future undrawn exposure values.
(2) Reflects ECL for all modelled exposure in scope for IFRS 9. The analysis excludes non-modelled portfolios and exposure relating to bonds and cash.
(3) Exposures related to Ulster Bank RoI continuing operations were not included in the simulations, the current Ulster Bank RoI ECL has been included across all scenarios to enable reconciliation to other disclosures.
(4) All simulations are run on a stand-alone basis and are independent of each other, with the potential ECL impact reflecting the simulated impact as at 31 December 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.
(5) Refer to the Economic loss drivers section for details of economic scenarios.
(6) Refer to Exhibit 15.2 of the NatWest Group 2021 Annual Report on Form 20-F for 2021 comparatives.

Credit risk continued

Measurement uncertainty and ECL adequacy

(audited)

- During 2022, overall modelled ECL increased reflecting portfolio growth alongside a deteriorating view on economic outlook. Judgmental ECL post model adjustments, although reduced in value terms since 31 December 2021, continued to reflect economic uncertainty with the expectation of increased defaults in 2023 and beyond, and represented 12% of total ECL (2021 – 26%).
- If the economics were as negative as observed in the extreme downside, total Stage 1 and Stage 2 ECL was simulated to increase by £1.6 billion (approximately 93%). In this scenario, Stage 2 exposure increased significantly and was the key driver of the simulated ECL rise. The movement in Stage 2 balances in the other simulations was less significant.
- In the Wholesale portfolio, there was a significant increase in ECL under both a moderate and extreme downside scenario. The Wholesale property ECL increase was driven by commercial real estate prices which show negative growth until 2024 and significant deterioration in the stock index. The non-property increase was mainly due to GDP contraction and significant deterioration in the stock index.
- The changes in the economic outlook and scenarios used in the IFRS 9 MES framework at 31 December 2022 resulted in an increase in modelled ECL. Given that continued uncertainty remains due to the high inflation environment and supply chain disruption, NatWest Group utilised a framework of quantitative and qualitative measures to support the directional change and levels of ECL coverage, including economic data, credit performance insights and problem debt trends. This was particularly important for consideration of post model adjustments.
- As the effects of the high inflation environment and supply chain disruption evolve during 2022 and into 2023 and government support schemes have to be serviced, there is a risk of credit deterioration. However, the income statement effect of this will be mitigated by the forward-looking provisions retained on the balance sheet at 31 December 2022.
- 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 would include an adverse deterioration in GDP and unemployment in the economies in which NatWest Group operates.

Movement in ECL provision*

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

	ECL provision £m
At 1 January 2022	3,806
Transfers to disposal groups and reclassifications	(338)
Changes in economic forecast	341
Changes in risk metrics and exposure: Stage 1 and Stage 2	14
Changes in risk metrics and exposure: Stage 3	576
Judgmental changes: changes in post model adjustments for Stage 1, Stage 2 and Stage 3	(428)
Write-offs and other	(537)
At 31 December 2022	3,434
At 1 January 2021	6,186
2021 movements	(2,380)
At 31 December 2021	3,806

*Not within audit scope.

Credit risk – Banking activities

Introduction

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

Presentation of discontinued operations and assets and liabilities of disposal groups

Three legally binding agreements for the sale of UBIDAC business have been announced as part of the phased withdrawal from the Republic of Ireland. Material developments since the beginning of 2022 are set out below.

Agreement with Allied Irish Banks, p.l.c. (AIB) for the transfer of performing commercial loans.

Successful migration of six tranches of performing commercial loans to AIB was completed during 2022, with €2.1 billion of gross performing loans being fully migrated by year-end. It is expected that remaining migrations of commercial customers will be materially completed in phases over H1 2023. Colleagues who are wholly or mainly assigned to supporting this part of the business are in the process of getting transferred to AIB under Transfer of Undertakings, Protection of Employment (TUPE) arrangements, with more than half having completed their move by the end of 2022. Losses on disposal of €123 million have been recognised in 2022 in respect of the migrations completed to date.

Agreement with Permanent TSB Group Holdings p.l.c. (PTSB) for the sale of performing non-tracker mortgages, the performing loans in the micro-SME business, the UBIDAC Asset Finance business, including its Lombard digital platform, and 25 Ulster Bank branch locations in the Republic of Ireland.

c.€5 billion of performing non-tracker mortgages migrated to PTSB in November 2022, with the remaining balances expected to migrate during H1 2023. In January 2023, 25 branches transferred to PTSB. The remaining performing non-tracker mortgages, micro-SME loans, Lombard Asset Finance business and all remaining eligible colleagues who will move under TUPE regulations, are also expected to transfer in 2023.

Agreement with AIB for the sale of performing tracker and linked mortgages.

In January 2023 the Competition and Consumer Protection Commission (CCPC) granted approval on the portfolio sale of performing tracker and linked mortgages to AIB. Completion of this sale is expected to occur in Q2 2023.

The business activities relating to these sales that meet the requirements of IFRS 5 are presented as a discontinued operation and as a disposal group. Comparatives have been re-presented from those previously published to reclassify certain items as discontinued operations. Ulster Bank RoI continuing operations are now reported within Group central items & other. In 2022 we reclassified mortgage loans to fair value through profit or loss, which resulted in a €453 million reduction in mortgage financial assets in UBIDAC to 31 December 2022. This reclassification applies across both our continuing and discontinued operations.

Refer to Note 8 to the consolidated financial statements for further details.

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

Refer to Note 10 to the consolidated financial statements for balance sheet analysis of financial assets that are classified as amortised cost or fair value through other comprehensive income (FVOCI), the starting point for IFRS 9 ECL framework assessment. The table below excludes loans in disposal group of £1.5 billion (2021 – £9.1 billion).

	31 December 2022			31 December 2021		
	Gross £bn	ECL £bn	Net £bn	Gross £bn	ECL £bn	Net £bn
Balance sheet total gross amortised cost and FVOCI	554.3			596.1		
In scope of IFRS 9 ECL framework	550.3			590.9		
% in scope	99%			99%		
Loans to customers - in scope - amortised cost	370.1	3.3	366.8	361.9	3.7	358.2
Loans to customers - in scope - FVOCI	0.1	—	0.1	0.3	—	0.3
Loans to banks - in scope - amortised cost	6.9	—	6.9	7.6	—	7.6
Total loans - in scope	377.1	3.3	373.8	369.8	3.7	366.1
Stage 1	325.2	0.6	324.6	330.8	0.3	330.5
Stage 2	46.8	0.9	45.9	34.0	1.4	32.6
Stage 3	5.1	1.8	3.3	5.0	2.0	3.0
Other financial assets - in scope - amortised cost	156.4	—	156.4	184.4	—	184.4
Other financial assets - in scope - FVOCI	16.8	—	16.8	36.7	—	36.7
Total other financial assets - in scope	173.2	—	173.2	221.1	—	221.1
Stage 1	172.4	—	172.4	220.8	—	220.8
Stage 2	0.8	—	0.8	0.3	—	0.3
Out of scope of IFRS 9 ECL framework	4.0	na	4.0	5.2	na	5.2
Loans to customers - out of scope - amortised cost	(0.4)	na	(0.4)	0.8	na	0.8
Loans to banks - out of scope - amortised cost	0.2	na	0.2	0.1	na	0.1
Other financial assets - out of scope - amortised cost	4.1	na	4.1	4.0	na	4.0
Other financial assets - out of scope - FVOCI	0.1	na	0.1	0.3	na	0.3

na = not applicable

Credit risk – Banking activities

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

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 £4.3 billion (2021 – £3.7 billion). These were assessed as having no ECL unless there was evidence that they were defaulted.
- Equity shares of £0.4 billion (2021 – £0.3 billion) as not within the IFRS 9 ECL framework by definition.
- Fair value adjustments on loans hedged by interest rate swaps, where the underlying loan was within the IFRS 9 ECL scope – £(0.6) billion (2021 – £0.8 billion).
- NatWest Group originated securitisations, where ECL was captured on the underlying loans of £nil billion (2021 – £0.4 billion).

Contingent liabilities and commitments

In addition to contingent liabilities and commitments disclosed in Note 26 to the consolidated financial statements, reputationally-committed limits were also included in the scope of the IFRS 9 ECL framework. These were offset by £(0.1) billion (2021 – £0.8 billion) out of scope balances primarily related to facilities that, if drawn, would not be classified as amortised cost or FVOCI, or undrawn limits relating to financial assets exclusions. Total contingent liabilities (including financial guarantees) and commitments within IFRS 9 ECL scope of £137.2 billion (2021 – £127.9 billion) comprised Stage 1 £119.2 billion (2021 – £119.5 billion); Stage 2 £17.3 billion (2021 – £7.8 billion); and Stage 3 £0.7 billion (2021 – £0.6 billion).

The ECL relating to off balance sheet exposures was £0.1 billion (2021 – £0.1 billion). The total ECL in the remainder of the Credit risk section of £3.4 billion (2021 – £3.8 billion) included ECL for both on and off balance sheet exposures for non-disposal groups.

Credit risk – Banking activities continued

Segment analysis – portfolio summary (audited)

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

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

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

Credit risk – Banking activities continued

Segment analysis – portfolio summary (audited)

2021	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
Loans - amortised cost and FVOCI					
Stage 1	168,013	17,600	107,368	37,843	330,824
Stage 2	13,594	967	18,477	943	33,981
Stage 3	1,884	270	2,081	787	5,022
Of which: individual	—	*270*	*884*	*61*	*1,215*
Of which: collective	*1,884*	—	*1,197*	*726*	*3,807*
Subtotal excluding disposal group loans	*183,491*	*18,837*	*127,926*	*39,573*	*369,827*
Disposal group loans				*9,084*	*9,084*
Total				*48,657*	*378,911*
ECL provisions (1)					
Stage 1	134	12	129	27	302
Stage 2	590	29	784	75	1,478
Stage 3	850	37	751	388	2,026
Of which: individual	—	*37*	*313*	*13*	*363*
Of which: collective	*850*	—	*438*	*375*	*1,663*
Subtotal excluding ECL provisions on disposal group loans	*1,574*	*78*	*1,664*	*490*	*3,806*
ECL provisions on disposal group loans				*109*	*109*
Total				*599*	*3,915*
ECL provisions coverage (2)					
Stage 1 (%)	0.08	0.07	0.12	0.07	0.09
Stage 2 (%)	4.34	3.00	4.24	7.95	4.35
Stage 3 (%)	45.12	13.70	36.09	49.30	40.34
ECL provisions coverage excluding disposal group loans	*0.86*	*0.41*	*1.30*	*1.24*	*1.03*
ECL provisions coverage on disposal group loans				*1.20*	*1.20*
Total				*1.23*	*1.03*
Impairment (releases)/losses					
ECL (release)/charge (3,4)	(36)	(54)	(1,160)	77	(1,173)
Stage 1	(387)	(45)	(872)	(13)	(1,317)
Stage 2	157	(15)	(299)	(7)	(164)
Stage 3	194	6	11	97	308
Of which: individual	—	*6*	*16*	*(2)*	*20*
Of which: collective	*194*	—	*(5)*	*99*	*288*
Continuing operations	*(36)*	*(54)*	*(1,160)*	*77*	*(1,173)*
Discontinued operations				*(162)*	*(162)*
Total				(85)	(1,335)
Amounts written-off	220	6	562	88	876
Of which: individual	—	*6*	*449*	—	*455*
Of which: collective	*220*	—	*113*	*88*	*421*

(1) Includes loans to customers and banks.
(2) Includes £3 million (2021 – £5 million) related to assets classified as FVOCI and £0.1 billion (2021 – £0.1 billion) related to off-balance sheet exposures.
(3) ECL provisions coverage is calculated as ECL provisions divided by loans – amortised cost and FVOCI. It is calculated on third party loans and total ECL provisions.
(4) Includes a £3 million charge (2021 – £3 million release) related to other financial assets, of which nil (2021 – £2 million release) related to assets classified as FVOCI; and £5 million release (2021 – £34 million release) related to contingent liabilities.
(5) The table shows gross loans only and excludes amounts that were outside the scope of the ECL framework. Refer to the Financial instruments within the scope of the IFRS 9 ECL framework section for further details. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totalling £143.3 billion (2021 – £176.3 billion) and debt securities of £29.9 billion (2021 – £44.9 billion).

- Stage 1 and Stage 2 modelled ECL increased due to deterioration in forward-looking economics, although the Stage 2 growth was more than offset by reductions in post model adjustments.
- Stage 2 loans increased during 2022 in line with portfolio growth alongside deterioration in forward-looking economics as a result of the high inflation environment and supply chain disruption growing throughout the second half of the year.
- Stage 3 loans increased, as write-offs and repayments were more than offset by the effect of the new regulatory definition of default, which in isolation led to an increase of approximately £0.7 billion in Stage 3 balances, mostly in mortgages.
- Underlying flows into default remained subdued during 2022. However, it is expected that defaults will increase in 2023 as growing inflationary pressures on businesses, consumers and the broader economy continue to evolve.
- There was a significant reduction in loans, ECL, and coverage in Central items & other due to the phased withdrawal of Ulster Bank RoI.

Credit risk – Banking activities continued

Segment analysis – portfolio summary (audited)

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

	Loans - amortised cost and FVOCI				Off-balance sheet		ECL provisions			
	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
2022										
Personal	—	—	—	—	—	—	—	—	—	—
Wholesale	1,269	193	40	1,502	413	19	17	19	17	53
Total	1,269	193	40	1,502	413	19	17	19	17	53
2021										
Personal	5,547	210	34	5,791	—	—	4	6	7	17
Wholesale	2,647	639	7	3,293	1,665	115	10	78	4	92
Total	8,194	849	41	9,084	1,665	115	14	84	11	109

(1) Ulster Bank mortgages moves to fair value in 2023 and are no longer subject to ECL assessment. Due to fair value treatment this portfolio is no longer included in the 2022 figures of credit risk tables for either disposal or non-disposal groups.

Credit risk – Banking activities continued

Segmental loans and impairment metrics (audited)

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

	Gross loans							ECL provisions (2)						
		Stage 2 (1)							Stage 2 (1)					
2022	Stage 1 £m	Not past due £m	1-30 DPD £m	>30 DPD £m	Total £m	Stage 3 £m	Total £m	Stage 1 £m	Not past due £m	1-30 DPD £m	>30 DPD £m	Total £m	Stage 3 £m	Total £m
Retail Banking	174,727	20,653	605	303	21,561	2,565	198,853	251	406	14	30	450	917	1,618
Private Banking	18,367	730	39	32	801	242	19,410	21	14	—	—	14	26	61
Personal	*15,182*	*122*	*35*	*16*	*173*	*207*	*15,562*	*5*	*1*	—	—	*1*	*17*	*23*
Wholesale	*3,185*	*608*	*4*	*16*	*628*	*35*	*3,848*	*16*	*13*	—	—	*13*	*9*	*38*
Commercial & Institutional	108,791	22,520	956	750	24,226	2,166	135,183	342	491	26	17	534	747	1,623
Personal	*2,475*	*17*	*17*	*7*	*41*	*46*	*2,562*	*3*	*1*	—	—	*1*	*12*	*16*
Wholesale	*106,316*	*22,503*	*939*	*743*	*24,185*	*2,120*	*132,621*	*339*	*490*	*26*	*17*	*533*	*735*	*1,607*
Central items & other	23,339	234	4	7	245	123	23,707	18	42	1	2	45	69	132
Personal	*54*	*70*	*3*	*6*	*79*	*13*	*146*	*1*	*11*	*1*	*2*	*14*	*11*	*26*
Wholesale	*23,285*	*164*	*1*	*1*	*166*	*110*	*23,561*	*17*	*31*	—	—	*31*	*58*	*106*
Total loans	325,224	44,137	1,604	1,092	46,833	5,096	377,153	632	953	41	49	1,043	1,759	3,434
Of which:														
Personal	*192,438*	*20,862*	*660*	*332*	*21,854*	*2,831*	*217,123*	*260*	*419*	*15*	*32*	*466*	*957*	*1,683*
Wholesale	*132,786*	*23,275*	*944*	*760*	*24,979*	*2,265*	*160,030*	*372*	*534*	*26*	*17*	*577*	*802*	*1,751*
2021														
Retail Banking	168,013	12,275	863	456	13,594	1,884	183,491	134	516	38	36	590	850	1,574
Private Banking	17,600	902	27	38	967	270	18,837	12	29	—	—	29	37	78
Personal	*14,350*	*137*	*24*	*11*	*172*	*232*	*14,754*	*6*	*2*	—	—	*2*	*18*	*26*
Wholesale	*3,250*	*765*	*3*	*27*	*795*	*38*	*4,083*	*6*	*27*	—	—	*27*	*19*	*52*
Commercial & Institutional	107,368	17,352	455	670	18,477	2,081	127,926	129	750	23	11	784	751	1,664
Personal	*2,647*	*21*	*17*	*11*	*49*	*57*	*2,753*	*2*	*1*	—	—	*1*	*10*	*13*
Wholesale	*104,721*	*17,331*	*438*	*659*	*18,428*	*2,024*	*125,173*	*127*	*749*	*23*	*11*	*783*	*741*	*1,651*
Central items & other	37,843	837	58	48	943	787	39,573	27	69	3	3	75	388	490
Personal	*5,165*	*510*	*52*	*46*	*608*	*609*	*6,382*	*7*	*15*	*3*	*3*	*21*	*301*	*329*
Wholesale	*32,678*	*327*	*6*	*2*	*335*	*178*	*33,191*	*20*	*54*	—	—	*54*	*87*	*161*
Total loans	330,824	31,366	1,403	1,212	33,981	5,022	369,827	302	1,364	64	50	1,478	2,026	3,806
Of which:														
Personal	*190,175*	*12,943*	*956*	*524*	*14,423*	*2,782*	*207,380*	*149*	*534*	*41*	*39*	*614*	*1,179*	*1,942*
Wholesale	*140,649*	*18,423*	*447*	*688*	*19,558*	*2,240*	*162,447*	*153*	*830*	*23*	*11*	*864*	*847*	*1,864*

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

Credit risk – Banking activities continued

Segmental loans and impairment metrics (audited)

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

	ECL provisions coverage							ECL	
		Stage 2 (1,2)							
2022	Stage 1 %	Not past due %	1-30 DPD %	>30 DPD %	Total %	Stage 3 %	Total %	Total (release) / charge (1) £m	Amounts written-off £m
Retail Banking	**0.14**	**1.97**	**2.31**	**9.90**	**2.09**	**35.75**	**0.81**	**229**	**216**
Private Banking	**0.11**	**1.92**	**—**	**—**	**1.75**	**10.74**	**0.31**	**(2)**	**15**
Personal	***0.03***	***0.82***	***—***	***—***	***0.58***	***8.21***	***0.15***	***(3)***	***2***
Wholesale	***0.50***	***2.14***	***—***	***—***	***2.07***	***25.71***	***0.99***	***1***	***13***
Commercial & Institutional	**0.31**	**2.18**	**2.72**	**2.27**	**2.20**	**34.49**	**1.20**	**122**	**224**
Personal	***0.12***	***5.88***	***—***	***—***	***2.44***	***26.09***	***0.62***	***4***	***2***
Wholesale	***0.32***	***2.18***	***2.77***	***2.29***	***2.20***	***34.67***	***1.21***	***118***	***222***
Central items & other	**0.08**	**17.95**	**25.00**	**28.57**	**18.37**	**56.10**	**0.56**	**(12)**	**27**
Personal	***1.85***	***15.71***	***33.33***	***33.33***	***17.72***	***84.62***	***17.81***	***11***	***1***
Wholesale	***0.07***	***18.90***	***—***	***—***	***18.67***	***52.73***	***0.45***	***(23)***	***26***
Total loans	**0.19**	**2.16**	**2.56**	**4.49**	**2.23**	**34.52**	**0.91**	**337**	**482**
Of which:									
Personal	***0.14***	***2.01***	***2.27***	***9.64***	***2.13***	***33.80***	***0.78***	***241***	***221***
Wholesale	***0.28***	***2.29***	***2.75***	***2.24***	***2.31***	***35.41***	***1.09***	***96***	***261***
2021									
Retail Banking	0.08	4.20	4.40	7.89	4.34	45.12	0.86	(36)	220
Private Banking	0.07	3.22	—	—	3.00	13.70	0.41	(54)	6
Personal	*0.04*	*1.46*	*—*	*—*	*1.16*	*7.76*	*0.18*	*1*	*3*
Wholesale	*0.18*	*3.53*	*—*	*—*	*3.40*	*50.00*	*1.27*	*(55)*	*3*
Commercial & Institutional	0.12	4.32	5.05	1.64	4.24	36.09	1.30	(1,160)	562
Personal	*0.08*	*4.76*	*—*	*—*	*2.04*	*17.54*	*0.47*	*—*	*1*
Wholesale	*0.12*	*4.32*	*5.25*	*1.67*	*4.25*	*36.61*	*1.32*	*(1,160)*	*561*
Central items & other	0.07	8.24	5.17	6.25	7.95	49.30	1.24	77	88
Personal	0.14	2.94	5.77	6.52	3.45	49.43	5.16	97	76
Wholesale	0.06	16.51	*—*	*—*	16.12	48.88	0.49	(20)	12
Total loans	0.09	4.35	4.56	4.13	4.35	40.34	1.03	(1,173)	876
Of which:									
Personal	*0.08*	*4.13*	*4.29*	*7.44*	*4.26*	*42.38*	*0.94*	*62*	*300*
Wholesale	*0.11*	*4.51*	*5.15*	*1.60*	*4.42*	*37.81*	*1.15*	*(1,235)*	*576*
2019									
Retail Banking	0.08	3.15	4.35	7.79	3.44	43.27	0.88		
Private Banking	0.05	1.26	0.00	2.17	1.19	14.01	0.27		
Personal	*0.03*	*1.11*	*0.00*	*2.44*	*1.07*	*11.98*	*0.24*		
Wholesale	*0.12*	*1.34*	*0.00*	*0.00*	*1.31*	*40.00*	*0.38*		
Commercial & Institutional	0.15	1.79	4.35	2.60	1.86	47.84	1.23		
Personal	*0.04*	*3.70*	*0.00*	*0.00*	*2.00*	*18.46*	*0.48*		
Wholesale	*0.15*	*1.78*	*4.63*	*2.66*	*1.86*	*48.64*	*1.25*		
Central items & other	0.11	2.77	5.77	6.02	3.22	34.02	2.27		
Personal	*0.11*	*2.12*	*6.25*	*5.71*	*2.79*	*31.49*	*4.57*		
Wholesale	*0.12*	*4.09*	*0.00*	*7.14*	*4.20*	*63.75*	*0.71*		
Total loans	0.11	2.47	4.27	5.99	2.70	41.19	1.13		
Of which:									
Personal	*0.08*	*3.04*	*4.23*	*7.15*	*3.35*	*35.90*	*1.10*		
Wholesale	*0.14*	*1.86*	*4.44*	*3.04*	*1.94*	*49.53*	*1.16*		

(1) 30 DPD – 30 days past due, the mandatory 30 days past due backstop as prescribed by IFRS 9 for a SICR.
(2) ECL provisions on contingent liabilities and commitments are included within the Financial assets section so as not to distort ECL coverage ratios.

Credit risk – Banking activities continued

Segmental loans and impairment metrics (audited)

- Retail Banking – Balance sheet growth during 2022 was primarily within mortgages with new lending a result of strong housing demand and re-mortgage activity and increased buy-to-let lending. Unsecured lending balances also increased as consumer demand and spending recovered following the easing of COVID-19 restrictions and with selective relaxation of lending criteria. Total ECL coverage reduced slightly during 2022, reflective of low unemployment and stable portfolio performance, while maintaining sufficient ECL coverage for key portfolios above 2019 levels, given increased inflationary and economic pressures. Increasing Stage 2 size and portfolio coverage in the second half of the year reflected the deterioration in economic outlook, with portfolio performance remaining broadly stable. Stage 3 ECL increased overall, mainly because of the IFRS 9 alignment to the new regulatory default definition, implemented on 1 January 2022. The implementation of new mortgage IFRS 9 models resulted in lower Stage 3 ECL coverage due to reduced loss estimates for cases where the customer was not subject to repossession activity and was the primary reason for the change in overall retail Stage 3 coverage during 2022.
- Commercial & Institutional – There was growth in Commercial & Institutional, particularly as a result of increased exposure to financial institutions, notably leveraged funds, and larger corporate customers, primarily within information technology, telecommunications and power utilities. There were also continued repayments of COVID-19 government lending schemes, and strategic reductions in certain sectors. Sector appetite continues to be reviewed regularly, with particular focus on sector clusters and sub-sectors that are vulnerable to inflationary pressures or deemed to represent a heightened risk. Stage 1 and Stage 2 ECL increased due to deterioration in forward-looking economics, although the Stage 2 growth was more than offset by reductions in post model adjustments. Coverage decreased with the reduction in COVID-19 post model adjustments, but coverage on Stage 1 and Stage 2 was significantly above 2019 levels, reflecting current inflationary and economic pressures.
- Other – Balance sheet reduction in 2022 compared to 2021 was mainly due to a reduction in central items held in the course of treasury related management activities, and a decrease due to the phased withdrawal of Ulster Bank RoI.

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

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

	Personal				Wholesale					
2022	Mortgages (1) £m	Credit cards £m	Other personal £m	Total £m	Property £m	Corporate £m	FI £m	Sovereign £m	Total £m	Total £m
Loans by geography	202,957	4,460	9,706	217,123	32,574	73,677	48,138	5,641	160,030	377,153
- *UK*	*202,957*	*4,420*	*9,602*	*216,979*	*31,452*	*62,318*	*32,480*	*4,285*	*130,535*	*347,514*
- *RoI*	*—*	*40*	*104*	*144*	*34*	*1,102*	*74*	*—*	*1,210*	*1,354*
- *Other Europe*	*—*	*—*	*—*	*—*	*623*	*4,670*	*6,967*	*475*	*12,735*	*12,735*
- *RoW*	*—*	*—*	*—*	*—*	*465*	*5,587*	*8,617*	*881*	*15,550*	*15,550*
Loans by stage	202,957	4,460	9,706	217,123	32,574	73,677	48,138	5,641	160,030	377,153
- *Stage 1*	*182,245*	*3,275*	*6,918*	*192,438*	*27,542*	*53,048*	*46,738*	*5,458*	*132,786*	*325,224*
- *Stage 2*	*18,787*	*1,076*	*1,991*	*21,854*	*4,316*	*19,153*	*1,353*	*157*	*24,979*	*46,833*
- *Stage 3*	*1,925*	*109*	*797*	*2,831*	*716*	*1,476*	*47*	*26*	*2,265*	*5,096*
- *Of which: individual*	*172*	*—*	*13*	*185*	*314*	*564*	*33*	*25*	*936*	*1,121*
- *Of which: collective*	*1,753*	*109*	*784*	*2,646*	*402*	*912*	*14*	*1*	*1,329*	*3,975*
Loans - past due analysis (3.4)	202,957	4,460	9,706	217,123	32,574	73,677	48,138	5,641	160,030	377,153
- *Not past due*	*200,634*	*4,335*	*8,825*	*213,794*	*31,366*	*70,034*	*47,824*	*5,633*	*154,857*	*368,651*
- *Past due 1-30 days*	*916*	*33*	*86*	*1,035*	*608*	*2,490*	*278*	*1*	*3,377*	*4,412*
- *Past due 31-90 days*	*510*	*29*	*104*	*643*	*302*	*551*	*5*	*7*	*865*	*1,508*
- *Past due 91-180 days*	*380*	*24*	*79*	*483*	*49*	*34*	*24*	*—*	*107*	*590*
- *Past due >180 days*	*517*	*39*	*612*	*1,168*	*249*	*568*	*7*	*—*	*824*	*1,992*
Loans - Stage 2	18,787	1,076	1,991	21,854	4,316	19,153	1,353	157	24,979	46,833
- *Not past due*	*17,951*	*1,039*	*1,872*	*20,862*	*3,866*	*17,915*	*1,344*	*150*	*23,275*	*44,137*
- *Past due 1-30 days*	*588*	*19*	*53*	*660*	*185*	*754*	*5*	*—*	*944*	*1,604*
- *Past due 31-90 days*	*248*	*18*	*66*	*332*	*265*	*484*	*4*	*7*	*760*	*1,092*
Weighted average life*										
- ECL measurement (years)	8	2	6	5	4	6	3	1	5	5
Weighted average 12 months PDs*										
- IFRS 9 (%)	0.50	2.62	4.78	0.71	1.88	2.11	0.23	0.19	1.41	1.01
- Basel (%)	0.65	2.97	3.11	0.79	1.03	1.44	0.16	0.19	0.92	0.85
ECL provisions by geography	376	257	1,050	1,683	441	1,228	63	19	1,751	3,434
- *UK*	*376*	*254*	*1,027*	*1,657*	*404*	*985*	*42*	*14*	*1,445*	*3,102*
- *RoI*	*—*	*3*	*23*	*26*	*13*	*66*	*1*	*—*	*80*	*106*
- *Other Europe*	*—*	*—*	*—*	*—*	*16*	*72*	*7*	*1*	*96*	*96*
- *RoW*	*—*	*—*	*—*	*—*	*8*	*105*	*13*	*4*	*130*	*130*
ECL provisions by stage	376	257	1,050	1,683	441	1,228	63	19	1,751	3,434
- *Stage 1*	*81*	*62*	*117*	*260*	*107*	*218*	*32*	*15*	*372*	*632*
- *Stage 2*	*62*	*122*	*282*	*466*	*105*	*457*	*14*	*1*	*577*	*1,043*
- *Stage 3*	*233*	*73*	*651*	*957*	*229*	*553*	*17*	*3*	*802*	*1,759*
- *Of which: individual*	*18*	*—*	*10*	*28*	*80*	*163*	*13*	*3*	*259*	*287*
- *Of which: collective*	*215*	*73*	*641*	*929*	*149*	*390*	*4*	*—*	*543*	*1,472*
ECL provisions coverage (%)	0.19	5.76	10.82	0.78	1.35	1.67	0.13	0.34	1.09	0.91
- *Stage 1 (%)*	*0.04*	*1.89*	*1.69*	*0.14*	*0.39*	*0.41*	*0.07*	*0.27*	*0.28*	*0.19*
- *Stage 2 (%)*	*0.33*	*11.34*	*14.16*	*2.13*	*2.43*	*2.39*	*1.03*	*0.64*	*2.31*	*2.23*
- *Stage 3 (%)*	*12.10*	*66.97*	*81.68*	*33.80*	*31.98*	*37.47*	*36.17*	*11.54*	*35.41*	*34.52*
ECL (release)/charge	(74)	56	259	241	126	(47)	19	(2)	96	337
- *UK*	*(74)*	*57*	*247*	*230*	*118*	*(67)*	*14*	*(3)*	*62*	*292*
- *RoI*	*—*	*(1)*	*12*	*11*	*1*	*(26)*	*(2)*	*—*	*(27)*	*(16)*
- *Other Europe*	*—*	*—*	*—*	*—*	*4*	*—*	*1*	*—*	*5*	*5*
- *RoW*	*—*	*—*	*—*	*—*	*3*	*46*	*6*	*1*	*56*	*56*
Amounts written-off	31	67	123	221	33	188	40	—	261	482

*Not within audit scope.

For the notes to this table refer to page 202.

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

	Personal				Wholesale					
2022	Mortgages (1) £m	Credit cards £m	Other personal £m	Total £m	Property £m	Corporate £m	FI £m	Sovereign £m	Total £m	Total £m
Loans by residual maturity	202,957	4,460	9,706	217,123	32,574	73,677	48,138	5,641	160,030	377,153
- <1 year	*3,347*	*2,655*	*3,368*	*9,370*	*6,740*	*24,297*	*36,192*	*2,958*	*70,187*	*79,557*
- 1-5 year	*10,968*	*1,805*	*5,387*	*18,160*	*17,523*	*32,127*	*10,380*	*1,819*	*61,849*	*80,009*
- > 5 years	*188,642*	*—*	*951*	*189,593*	*8,311*	*17,253*	*1,566*	*864*	*27,994*	*217,587*
Other financial assets by asset quality (2)	—	—	—	—	49	25	14,704	158,416	173,194	173,194
- AQ1-AQ4	*—*	*—*	*—*	*—*	*—*	*11*	*14,156*	*158,416*	*172,583*	*172,583*
- AQ5-AQ8	*—*	*—*	*—*	*—*	*49*	*14*	*548*	*—*	*611*	*611*
Off-balance sheet	18,782	15,848	8,547	43,177	15,793	57,791	19,555	710	93,849	137,026
- Loan commitments	*18,782*	*15,848*	*8,496*	*43,126*	*15,302*	*54,651*	*18,223*	*710*	*88,886*	*132,012*
- Financial guarantees	*—*	*—*	*51*	*51*	*491*	*3,140*	*1,332*	*—*	*4,963*	*5,014*
Off-balance sheet by asset quality (2)	18,782	15,848	8,547	43,177	15,793	57,791	19,555	710	93,849	137,026
- AQ1-AQ4	*17,676*	*436*	*7,353*	*25,465*	*12,477*	*35,960*	*17,899*	*606*	*66,942*	*92,407*
- AQ5-AQ8	*1,089*	*15,048*	*1,170*	*17,307*	*3,282*	*21,496*	*1,655*	*84*	*26,517*	*43,824*
- AQ9	*2*	*74*	*4*	*80*	*5*	*24*	*—*	*—*	*29*	*109*
- AQ10	*15*	*290*	*20*	*325*	*29*	*311*	*1*	*20*	*361*	*686*

For the notes to this table refer to page 202.

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

	Personal				Wholesale					
2021	Mortgages (1) £m	Credit cards £m	Other personal £m	Total £m	Property £m	Corporate £m	FI £m	Sovereign £m	Total £m	Total £m
Loans by geography	194,011	3,947	9,422	207,380	32,522	70,851	53,041	6,033	162,447	369,827
- *UK*	*187,847*	*3,877*	*9,253*	*200,977*	*31,574*	*62,952*	*39,086*	*4,542*	*138,154*	*339,131*
- *RoI*	*6,164*	*70*	*147*	*6,381*	*130*	*1,222*	*116*	*4*	*1,472*	*7,853*
- *Other Europe*	*—*	*—*	*—*	*—*	*439*	*3,831*	*5,066*	*840*	*10,176*	*10,176*
- *RoW*	*—*	*—*	*22*	*22*	*379*	*2,846*	*8,773*	*647*	*12,645*	*12,667*
Loans by stage	194,011	3,947	9,422	207,380	32,522	70,851	53,041	6,033	162,447	369,827
- *Stage 1*	*180,418*	*2,924*	*6,833*	*190,175*	*28,679*	*53,803*	*52,263*	*5,904*	*140,649*	*330,824*
- *Stage 2*	*11,543*	*933*	*1,947*	*14,423*	*3,101*	*15,604*	*732*	*121*	*19,558*	*33,981*
- *Stage 3*	*2,050*	*90*	*642*	*2,782*	*742*	*1,444*	*46*	*8*	*2,240*	*5,022*
- *of which: individual*	*269*	*—*	*19*	*288*	*329*	*583*	*7*	*8*	*927*	*1,215*
- *of which: collective*	*1,781*	*90*	*623*	*2,494*	*413*	*861*	*39*	*—*	*1,313*	*3,807*
Loans - past due analysis (3.4)	194,011	3,947	9,422	207,380	32,522	70,851	53,041	6,033	162,447	369,827
- *Not past due*	*190,834*	*3,834*	*8,619*	*203,287*	*31,391*	*68,630*	*52,285*	*6,030*	*158,336*	*361,623*
- *Past due 1-30 days*	*1,217*	*28*	*124*	*1,369*	*521*	*1,081*	*732*	*2*	*2,336*	*3,705*
- *Past due 31-90 days*	*592*	*25*	*73*	*690*	*256*	*448*	*19*	*1*	*724*	*1,414*
- *Past due 91-180 days*	*367*	*22*	*61*	*450*	*91*	*215*	*1*	*—*	*307*	*757*
- *Past due >180 days*	*1,001*	*38*	*545*	*1,584*	*263*	*477*	*4*	*—*	*744*	*2,328*
Loans - Stage 2	11,543	933	1,947	14,423	3,101	15,604	732	121	19,558	33,981
- *Not past due*	*10,259*	*899*	*1,785*	*12,943*	*2,725*	*14,870*	*708*	*120*	*18,423*	*31,366*
- *Past due 1-30 days*	*843*	*16*	*97*	*956*	*125*	*318*	*4*	*—*	*447*	*1,403*
- *Past due 31-90 days*	*441*	*18*	*65*	*524*	*251*	*416*	*20*	*1*	*688*	*1,212*
Weighted average life*										
- ECL measurement (years)	8	2	5	5	5	6	3	1	6	6
Weighted average 12 months PDs*										
- IFRS 9 (%)	0.16	4.84	2.73	0.36	0.76	1.85	0.14	0.14	1.00	0.65
- Basel (%)	0.76	3.31	3.22	0.91	1.20	1.74	0.14	0.16	1.04	0.97
ECL provisions by geography	768	260	914	1,942	374	1,411	57	22	1,864	3,806
- *UK*	*449*	*258*	*904*	*1,611*	*331*	*1,124*	*47*	*18*	*1,520*	*3,131*
- *RoI*	*319*	*2*	*10*	*331*	*19*	*107*	*3*	*1*	*130*	*461*
- *Other Europe*	*—*	*—*	*—*	*—*	*20*	*77*	*4*	*1*	*102*	*102*
- *RoW*	*—*	*—*	*—*	*—*	*4*	*103*	*3*	*2*	*112*	*112*
ECL provisions by stage	768	260	914	1,942	374	1,411	57	22	1,864	3,806
- *Stage 1*	*32*	*59*	*58*	*149*	*24*	*96*	*14*	*19*	*153*	*302*
- *Stage 2*	*174*	*141*	*299*	*614*	*111*	*713*	*39*	*1*	*864*	*1,478*
- *Stage 3*	*562*	*60*	*557*	*1,179*	*239*	*602*	*4*	*2*	*847*	*2,026*
- *of which: individual*	*19*	*—*	*12*	*31*	*69*	*261*	*—*	*2*	*332*	*363*
- *of which: collective*	*543*	*60*	*545*	*1,148*	*170*	*341*	*4*	*—*	*515*	*1,663*
ECL provisions coverage (%)	0.40	6.59	9.70	0.94	1.15	1.99	0.11	0.36	1.15	1.03
- *Stage 1 (%)*	*0.02*	*2.02*	*0.85*	*0.08*	*0.08*	*0.18*	*0.03*	*0.32*	*0.11*	*0.09*
- *Stage 2 (%)*	*1.51*	*15.11*	*15.36*	*4.26*	*3.58*	*4.57*	*5.33*	*0.83*	*4.42*	*4.35*
- *Stage 3 (%)*	*27.41*	*66.67*	*86.76*	*42.38*	*32.21*	*41.69*	*8.70*	*25.00*	*37.81*	*40.34*
ECL (release)/charge (5)	46	(14)	30	62	(477)	(723)	(38)	3	(1,235)	(1,173)
- *UK*	*(52)*	*(14)*	*31*	*(35)*	*(457)*	*(647)*	*(12)*	*3*	*(1,113)*	*(1,148)*
- *RoI*	*98*	*—*	*(1)*	*97*	*(5)*	*(23)*	*2*	*—*	*(26)*	*71*
- *Other Europe*	*—*	*—*	*—*	*—*	*(7)*	*(7)*	*(21)*	*—*	*(35)*	*(35)*
- *RoW*	*—*	*—*	*—*	*—*	*(8)*	*(46)*	*(7)*	*—*	*(61)*	*(61)*
Amounts written-off	85	74	141	300	271	271	34	—	576	876

*Not within audit scope.

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

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

	Personal				Wholesale					
2021	Mortgages £m	Credit cards £m	Other personal £m	Total £m	Property £m	Corporate £m	FI £m	Sovereign £m	Total £m	Total £m
Loans by residual maturity	194,011	3,947	9,422	207,380	32,522	70,851	53,041	6,033	162,447	369,827
- <1 year	*3,611*	*2,532*	*3,197*	*9,340*	*7,497*	*22,593*	*41,195*	*2,809*	*74,094*	*83,434*
- 1-5 year	*12,160*	*1,415*	*5,393*	*18,968*	*16,293*	*33,301*	*10,969*	*1,967*	*62,530*	*81,498*
- > 5 years	*178,240*	*—*	*832*	*179,072*	*8,732*	*14,957*	*877*	*1,257*	*25,823*	*204,895*
Other financial assets by asset quality (2)	—	—	—	—	55	11	11,516	209,553	221,135	221,135
- AQ1-AQ4	*—*	*—*	*—*	*—*	*—*	*11*	*10,974*	*209,551*	*220,536*	*220,536*
- AQ5-AQ8	*—*	*—*	*—*	*—*	*55*	*—*	*542*	*2*	*599*	*599*
Off-balance sheet	16,827	15,354	8,230	40,411	16,342	52,033	17,898	1,212	87,485	127,896
- Loan commitments	*16,827*	*15,354*	*8,170*	*40,351*	*15,882*	*49,231*	*16,906*	*1,212*	*83,231*	*123,582*
- Financial guarantees	*—*	*—*	*60*	*60*	*460*	*2,802*	*992*	*—*	*4,254*	*4,314*
Off-balance sheet by asset quality (2)	16,827	15,354	8,230	40,411	16,342	52,033	17,898	1,212	87,485	127,896
- AQ1-AQ4	*14,792*	*248*	*6,591*	*21,631*	*12,550*	*30,417*	*16,192*	*1,064*	*60,223*	*81,854*
- AQ5-AQ8	*2,028*	*14,804*	*1,625*	*18,457*	*3,757*	*21,262*	*1,703*	*148*	*26,870*	*45,327*
- AQ9	*—*	*9*	*3*	*12*	*6*	*48*	*1*	*—*	*55*	*67*
- AQ10	*7*	*293*	*11*	*311*	*29*	*306*	*2*	*—*	*337*	*648*

(1) Includes a portion of Private Banking lending secured against residential real estate, in line with ECL calculation methodology. Private Banking and RBS International mortgages are reported in UK, which includes crown dependencies, reflecting the country of lending origination.
(2) 30 DPD – 30 days past due, the mandatory 30 days past due backstop as prescribed by IFRS 9 for a SICR.
(3) AQ bandings are based on Basel PDs and mapping is as follows:

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

£0.3 billion (2021 – £0.3 billion) of AQ10 Personal balances primarily relate to loan commitments, the drawdown of which is effectively prohibited.

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

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

	Loans - amortised cost and FVOCI				Off-balance sheet		ECL provisions			
2022	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
Personal	192,438	21,854	2,831	217,123	43,126	51	260	466	957	1,683
Mortgages	182,245	18,787	1,925	202,957	18,782	—	81	62	233	376
Credit cards	3,275	1,076	109	4,460	15,848	—	62	122	73	257
Other personal	6,918	1,991	797	9,706	8,496	51	117	282	651	1,050
Wholesale	132,786	24,979	2,265	160,030	88,886	4,963	372	577	802	1,751
Property*	27,542	4,316	716	32,574	15,302	491	107	105	229	441
Financial institutions**	46,738	1,353	47	48,138	18,223	1,332	32	14	17	63
Sovereigns	5,458	157	26	5,641	710	—	15	1	3	19
Corporate	53,048	19,153	1,476	73,677	54,651	3,140	218	457	553	1,228
Of which:										
*Agriculture**	3,646	1,034	93	4,773	968	24	21	31	43	95
*Airlines and aerospace**	483	1,232	19	1,734	1,715	174	2	40	8	50
*Automotive**	5,776	1,498	30	7,304	4,009	99	18	18	11	47
*Chemicals**	384	117	1	502	650	12	1	2	1	4
Health	3,974	1,008	141	5,123	475	8	19	30	48	97
*Industrials**	2,148	1,037	82	3,267	3,135	195	10	16	24	50
*Land transport & logistics**	3,788	1,288	66	5,142	3,367	190	13	33	17	63
*Leisure**	3,416	3,787	260	7,463	1,907	102	27	147	115	289
*Mining & metals**	173	230	5	408	545	5	—	1	5	6
*Oil and gas**	953	159	60	1,172	2,157	248	3	3	31	37
*Power utilities**	4,228	406	6	4,640	6,960	1,182	9	11	1	21
*Retail**	6,497	1,746	150	8,393	4,682	416	21	29	68	118
*Shipping**	161	151	14	326	110	22	—	7	6	13
*Water & waste**	3,026	335	7	3,368	2,143	101	4	4	4	12
Total	325,224	46,833	5,096	377,153	132,012	5,014	632	1,043	1,759	3,434
2021										
Personal	190,175	14,423	2,782	207,380	40,351	60	149	614	1,179	1,942
Mortgages	180,418	11,543	2,050	194,011	16,827	—	32	174	562	768
Credit cards	2,924	933	90	3,947	15,354	—	59	141	60	260
Other personal	6,833	1,947	642	9,422	8,170	60	58	299	557	914
Wholesale	140,649	19,558	2,240	162,447	83,231	4,254	153	864	847	1,864
Property*	28,679	3,101	742	32,522	15,882	460	24	111	239	374
Financial institutions**	52,263	732	46	53,041	16,906	992	14	39	4	57
Sovereigns	5,904	121	8	6,033	1,212	—	19	1	2	22
Corporate	53,803	15,604	1,444	70,851	49,231	2,802	96	713	602	1,411
Of which:										
*Agriculture**	3,722	1,229	133	5,084	993	24	11	39	78	128
*Airlines and aerospace**	779	668	44	1,491	1,528	221	1	39	15	55
*Automotive**	5,133	1,304	38	6,475	3,507	65	9	32	10	51
*Chemicals**	355	43	1	399	663	14	1	—	—	1
Health	3,818	1,235	133	5,186	799	9	9	58	48	115
*Industrials**	2,311	620	28	2,959	2,770	243	4	15	13	32
*Land transport & logistics**	3,721	833	39	4,593	3,069	188	4	53	12	69
*Leisure**	3,712	4,050	340	8,102	1,874	107	11	247	133	391
*Mining & metals**	336	42	4	382	627	131	—	2	4	6
*Oil and gas**	1,482	141	52	1,675	1,126	453	1	14	28	43
*Power utilities**	3,844	220	6	4,070	5,622	404	2	3	1	6
*Retail**	6,380	1,342	180	7,902	4,872	410	8	29	66	103
*Shipping**	506	334	27	867	90	12	1	11	10	22
*Water & waste**	2,714	230	4	2,948	1,850	91	2	5	2	9
Total	330,824	33,981	5,022	369,827	123,582	4,314	302	1,478	2,026	3,806

* Wholesale sectors marked with an asterisk contain an element of exposure classified as heightened climate-related risk. Elements of the personal mortgage portfolio are also exposed to heightened climate-related risk. The classification of sectors into heightened climate-related risk mentioned within this footnote is not within audit scope.

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

Credit risk – Banking activities continued

Wholesale forbearance (audited)

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

2022	Property £m	FI £m	Other corporate £m	Total £m
Forbearance (flow)	746	105	2,575	3,426
Forbearance (stock)	933	107	4,709	5,749
Heightened Monitoring and Risk of Credit Loss	976	112	3,445	4,533
2021				
Forbearance (flow)	709	27	3,894	4,630
Forbearance (stock)	1,033	35	5,659	6,727
Heightened Monitoring and Risk of Credit Loss	1,225	83	4,492	5,800

Sector analysis – portfolio summary (audited)

- Loans by geography and sector – In line with NatWest Group's strategic focus, exposures continued to be mainly in the UK. Exposure to the Republic of Ireland reduced during the year as part of the phased withdrawal noted previously. In Personal, balance sheet growth was a result of strong mortgage demand during the year. In Wholesale, there was a reduction in the balance sheet in Q4, following a period of growth up to Q3. This was mainly due to a reduction in central items held in the course of treasury related management activities. There was growth in Commercial & Institutional, particularly as a result of increased exposure to financial institutions, notably leveraged funds, and larger corporate customers, primarily within information technology, telecommunications and power utilities. Repayment performance under COVID-19 government lending schemes is closely tracked and exposure continued to decrease due to scheduled repayment activity and account closures. Exposures under the Bounce Bank Loan Scheme (BBLS) that benefit from the 100% government guarantee account for approximately 70% of remaining government scheme exposures. BBLS missed repayment rate and recoveries stock have increased but volumes continue to be in line with other lenders.
- Loans by stage – In both Wholesale and Personal, deterioration in forward-looking economics resulted in a larger proportion of accounts exhibiting a SICR compared to 2021. There was, therefore, a migration of exposures from Stage 1 into Stage 2 during 2022. Personal customers who had accessed payment holiday support, and where their risk profile was identified as relatively high, are no longer collectively migrated into Stage 2. The relevance of this collective SICR identification was no longer considered as pertinent in the context of the current high inflation environment and related uncertainty.
- Loans – Past due analysis – Overall, the past due profile of the key portfolios remained broadly stable. The implementation of the new regulatory default definition included refinements to the days past due calculations. This contributed to an increase in arrears in H1 2022 in Personal, however this moderated through the year. Particularly in mortgages, the exit from the Republic of Ireland also contributed to the reduction in past due exposures. In Wholesale, there was an increase in past due 1-30 days in corporates.
- Weighted average 12 months PDs – In Personal, the Basel II point-in-time PDs improved slightly during 2022 due to stable credit performance in the portfolios. For IFRS 9 PDs, there were increases across mortgages and other personal lending as a result of new PD model implementations during the year, coupled with the deteriorating economic outlook in the second half of the year. For credit cards, the new IFRS 9 PD model implementation drove a net reduction in PD levels, primarily resulting from more accurate modelling of defaults driven by shifts in general unemployment. In Wholesale, the Basel II PDs were based on a through-the-cycle approach and improved reflecting positive portfolio performance. The IFRS 9 PDs increased due the deterioration in forward-looking economics. For further details refer to the Asset quality section.
- ECL provision by geography – In line with loans by geography, the vast majority of ECL related to exposures in the UK, noting the reduction in RoI was mostly due to the phased withdrawal of Ulster Bank RoI and moving of assets to discontinued operations and reclassifications.
- ECL provisions by stage – As mentioned above, Stage 1 and Stage 2 ECL increased due to deterioration in forward-looking economics, although the Stage 2 growth was more than offset by reductions in post model adjustments. Stage 3 provisions have yet to be materially affected by the high inflation environment and supply chain disruption, with increases relating to the introduction of the new regulatory definition of default, largely offset by write offs.
- ECL provisions coverage – Overall provisions coverage reduced, due to the phased withdrawal of Ulster Bank RoI, a change in product mix and a decrease in judgemental post model adjustments which more than offset increases from the deteriorating economic outlook.
- The ECL charge and loss rate – ECL charge and loss rate was low, with charges from a deterioration in forward-looking economics countered by reductions in post model adjustments and the continued stable portfolio performance and low default trends.
- Loans by residual maturity – The maturity profile of the portfolios remained consistent with prior periods. In mortgages, as expected, the vast majority of exposures were greater than five years. In unsecured lending – cards and other – exposures were concentrated in less than five years. In Wholesale, in financial institutions and sovereigns, lending was concentrated in less than one year, In the rest of Wholesale, most of the lending was for residual maturity of one to five years.
- Other financial assets by asset quality – Consisting almost entirely of cash and balances at central banks and debt securities, held in the course of treasury related management activities, these assets were mainly within the AQ1-AQ4 bands.
- Off-balance sheet exposures by asset quality – In Personal, undrawn exposures were reflective of available credit lines in credit cards and current accounts. Additionally, the mortgage portfolio had undrawn exposures, where a formal offer had been made to a customer but had not yet drawn down; the value increased in line with the pipeline of offers. There was also a legacy portfolio of flexible mortgages where a customer had the right and ability to draw down further funds. The asset quality was aligned to the wider portfolio. In Wholesale, growth was primarily loan commitments to financial institutions and corporate sectors in the AQ1-AQ4 bands.

Credit risk – Banking activities continued

Sector analysis – portfolio summary continued (audited)

- Wholesale forbearance – Forbearance flow and stock decreased in 2022 compared to 2021, noting that 2021 was adversely affected by COVID-19. Increased levels of forbearance were observed in Q4 2022. The retail & leisure, property and services sectors represented the largest share of forbearance flow. Labour shortages, the high inflation environment, rising fuel and energy costs, interest rate impacts and supply chain issues continue to weigh on these sectors. Payment holidays and covenant waivers were the most common forms of forbearance granted.
- Heightened Monitoring and Risk of Credit Loss – Economic headwinds continue to present an uncertain outlook. Risk of Credit Loss framework exposures and inflows decreased in 2022 compared to 2021, noting again that 2021 was adversely affected by COVID-19. Inflows into the framework began to increase in Q4 2022. The sector breakdown of exposures within the framework remained consistent with prior periods. Retail SME customers do not form part of the Wholesale Risk of Credit Loss framework. Customers in this group, that are in financial difficulty, are instead managed by specialist problem debt management teams. The number of customers in arrears and recoveries increased significantly during 2022, driven by BBLS exposures. Excluding BBLS, the number of customers in this population in problem debt remains stable.

Credit risk – Banking activities continued

Credit risk enhancement and mitigation (audited)

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

	Gross	Maximum credit risk			CREM by type			CREM coverage		Exposure post CREM	
	exposure	ECL	Total	Stage 3	Financial (1)	Property	Other (2)	Total	Stage 3	Total	Stage 3
2022	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Financial assets											
Cash and balances at central banks	143.2	—	143.2	—	—	—	—	—	—	143.2	—
Loans - amortised cost (3)	377.2	3.3	373.9	3.4	31.8	243.1	21.7	296.6	3.0	77.3	0.4
Personal (4)	*217.2*	*1.7*	*215.5*	*1.9*	*0.9*	*202.1*	—	*203.0*	*1.7*	*12.5*	*0.2*
Wholesale (5)	*160.0*	*1.6*	*158.4*	*1.5*	*30.9*	*41.0*	*21.7*	*93.6*	*1.3*	*64.8*	*0.2*
Debt securities	29.9	—	29.9	—	—	—	—	—	—	29.9	—
Total financial assets	550.3	3.3	547.0	3.4	31.8	243.1	21.7	296.6	3.0	250.4	0.4
Contingent liabilities and commitments											
Personal (6,7)	43.2	—	43.2	0.3	0.7	4.4	—	5.1	—	38.1	0.3
Wholesale	93.9	0.1	93.8	0.4	3.1	7.4	4.0	14.5	0.1	79.3	0.3
Total off-balance sheet	137.0	0.1	136.9	0.7	3.8	11.8	4.0	19.6	0.1	117.3	0.6
Total exposure	687.3	3.4	683.9	4.1	35.6	254.9	25.7	316.2	3.1	367.7	1.0
2021											
Financial assets											
Cash and balances at central banks	176.3	—	176.3	—	—	—	—	—	—	176.3	—
Loans - amortised cost (3)	369.8	3.7	366.1	3.0	41.1	232.7	23.5	297.3	2.7	68.8	0.3
Personal (4)	*207.4*	*1.9*	*205.5*	*1.6*	*1.3*	*192.6*	—	*193.9*	*1.5*	*11.6*	*0.1*
Wholesale (5)	*162.4*	*1.8*	*160.6*	*1.4*	*39.8*	*40.1*	*23.5*	*103.4*	*1.2*	*57.2*	*0.2*
Debt securities	44.9	—	44.9	—	—	—	—	—	—	44.9	—
Total financial assets	591.0	3.7	587.3	3.0	41.1	232.7	23.5	297.3	2.7	290.0	0.3
Contingent liabilities and commitments											
Personal (6,7)	40.4	—	40.4	0.3	0.5	4.9	—	5.4	—	35.0	0.3
Wholesale	87.5	0.1	87.4	0.3	3.2	7.9	3.9	15.0	0.1	72.4	0.2
Total off-balance sheet	127.9	0.1	127.8	0.6	3.7	12.8	3.9	20.4	0.1	107.4	0.5
Total exposure	718.9	3.8	715.1	3.6	44.8	245.5	27.4	317.7	2.8	397.4	0.8

(1) Includes cash and securities collateral.
(2) Includes guarantees, charges over trade debtors, other asset finance related physical collateral as well as the amount by which credit risk exposure is reduced through netting arrangements, mainly cash management pooling, which give NatWest Group a legal right to set off the financial asset against a financial liability due to the same counterparty.
(3) NatWest Group holds collateral in respect of individual loans – amortised cost to banks and customers. This collateral includes mortgages over property (both personal and commercial); charges over business assets such as plant and equipment; inventories and trade debtors; and guarantees of lending from parties other than the borrower. NatWest Group obtains collateral in the form of securities in reverse repurchase agreements. Collateral values are capped at the value of the loan.
(4) Stage 3 mortgage exposures have relatively limited uncovered exposure reflecting the security held. On unsecured credit cards and other personal borrowing, the residual uncovered amount reflects historical experience of continued cash recovery post default through ongoing engagement with customers.
(5) Stage 3 exposures post credit risk enhancement and mitigation in Wholesale mainly represent enterprise value and the impact of written down collateral values; an individual assessment to determine ECL will consider multiple scenarios and in some instances allocate a probability weighting to a collateral value in excess of the written down value.
(6) £0.3 billion (2021 – £0.3 billion) Personal Stage 3 balances primarily relate to loan commitments, the draw down of which is effectively prohibited.
(7) The Personal gross exposure value includes £14.0 billion (2021 – £11.8 billion) in respect of pipeline mortgages where a committed offer has been made to a customer but where the funds have not yet been drawn down. When drawn down, the exposure would be covered by a security over the borrower's property.

Credit risk – Banking activities continued

Personal portfolio (audited)

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

	2022					2021				
Personal lending	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & Other £m	Total £m
Mortgages	186,891	13,709	2,357	—	202,957	172,707	12,781	2,444	6,164	194,096
Of which:										
Owner occupied	168,790	12,096	1,541	—	182,427	158,059	11,219	1,597	5,563	176,438
Buy-to-let	18,101	1,613	816	—	20,530	14,648	1,562	847	601	17,658
Interest only - variable	3,515	3,286	258	—	7,059	4,348	4,889	346	120	9,703
Interest only - fixed	17,954	8,591	261	—	26,806	14,255	5,957	209	3	20,424
Mixed (1)	9,768	1	16	—	9,785	8,616	1	17	34	8,668
ECL provisions (2)	355	9	6	—	370	429	7	8	318	762
Other personal lending (3)	11,935	1,853	267	143	14,198	10,829	1,974	305	218	13,326
ECL provisions (2)	1,257	15	3	26	1,301	1,140	19	2	11	1,172
Total personal lending	198,826	15,562	2,624	143	217,155	183,536	14,755	2,749	6,382	207,422
Mortgage LTV ratios										
- Owner occupied	52%	59%	56%	—	53%	54%	59%	57%	50%	54%
- *Stage 1*	*52%*	*59%*	*56%*	—	*53%*	*54%*	*59%*	*56%*	*48%*	*54%*
- *Stage 2*	*52%*	*61%*	*60%*	—	*52%*	*52%*	*59%*	*62%*	*57%*	*52%*
- *Stage 3*	*45%*	*59%*	*74%*	—	*47%*	*49%*	*64%*	*77%*	*56%*	*53%*
- Buy-to-let	50%	59%	53%	—	51%	50%	57%	53%	52%	51%
- *Stage 1*	*51%*	*59%*	*53%*	—	*52%*	*50%*	*58%*	*53%*	*51%*	*51%*
- *Stage 2*	*49%*	*53%*	*48%*	—	*49%*	*52%*	*55%*	*50%*	*56%*	*52%*
- *Stage 3*	*47%*	*55%*	*57%*	—	*50%*	*51%*	*53%*	*60%*	*66%*	*56%*
Gross new mortgage lending	41,227	2,968	327	—	44,522	35,290	2,874	340	40	38,544
Of which:										
Owner occupied	36,305	2,701	221	—	39,227	33,630	2,583	206	40	36,459
Weighted average LTV (4)	69%	65%	65%	—	69.0%	69%	65%	67%	62%	68%
Buy-to-let	4,922	267	106	—	5,295	1,660	292	134	—	2,086
Weighted average LTV (4)	64%	66%	60%	—	64.0%	63%	65%	63%	60%	64%
Interest only - variable rate	24	329	11	—	364	25	832	37	—	894
Interest only - fixed rate	5,299	2,335	51	—	7,685	2,388	1,563	36	—	3,987
Mixed (1)	2,309	—	2	—	2,311	2,256	—	7	—	2,263
Mortgage forbearance										
Forbearance flow (5)	182	7	4	—	193	316	19	4	50	389
Forbearance stock	1,015	16	8	—	1,039	1,156	3	8	944	2,111
Current	*649*	*8*	*6*	—	*663*	*727*	—	*5*	*616*	*1,348*
1-3 months in arrears	*133*	—	*2*	—	*135*	*146*	*2*	*1*	*58*	*207*
>3 months in arrears	*233*	*8*	—	—	*241*	*283*	*1*	*2*	*270*	*556*

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

- The mortgage portfolio grew steadily during 2022, benefiting from buoyant housing market activity and customers re-mortgaging as interest rates rose across the market.
- LTV ratios improved as house prices increased as a result of housing market demand.
- The existing mortgage stock and new business were closely monitored against agreed risk appetite parameters. These included loan-to-value ratios, buy-to-let concentrations, new-build concentrations and credit quality. Affordability assessments and assumptions were continuously reviewed considering inflationary pressure, interest rate rises and taxation changes during the year.
- The buy-to-let portfolio grew in 2022. This growth was expected and within risk appetite following strategy and customer journey simplification implemented in H2 2021.
- Aligned to strong overall portfolio quality and low levels of early arrears, forbearance flows have decreased compared to the prior year.
- Unsecured lending increased during 2022, with resilient customer demand after the easing of COVID-19 restrictions.
- As noted previously, ECL increased, for further detail of movements in ECL provisions at product level refer to the Flow statements section.

Credit risk – Banking activities continued

Personal portfolio (audited)

Mortgage LTV distribution by stage

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

	Mortgages						ECL provisions				ECL provisions coverage (2)			
Retail Banking 2022	Stage 1 £m	Stage 2 £m	Stage 3 £m	Not within IFRS 9 ECL scope £m	Total £m	Of which: gross new lending £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total (1) £m	Stage 1 %	Stage 2 %	Stage 3 %	Total %
≤50%	71,321	8,257	1,036	61	80,675	7,467	26	20	121	167	—	0.2	11.7	0.2
>50% and ≤70%	68,178	7,792	616	7	76,593	14,088	32	30	71	133	—	0.4	11.5	0.2
>70% and ≤80%	17,602	1,602	62	1	19,267	11,154	7	6	11	24	—	0.4	17.7	0.1
>80% and ≤90%	7,918	944	17	1	8,880	7,127	6	5	5	16	0.1	0.5	29.4	0.2
>90% and ≤100%	1,409	18	6	—	1,433	1,389	3	—	2	5	0.2	—	33.3	0.3
>100%	35	7	10	—	52	2	2	—	4	6	5.7	—	40.0	11.5
Total with LTVs	166,463	18,620	1,747	70	186,900	41,227	76	61	214	351	—	0.3	12.3	0.2
Other	59	1	1	—	61	—	3	—	1	4	5.1	—	100.0	6.6
Total	166,522	18,621	1,748	70	186,961	41,227	79	61	215	355	—	0.3	12.3	0.2
2021														
≤50%	61,233	4,548	644	63	66,488	5,845	7	60	140	207	—	1.3	21.7	0.3
>50% and ≤70%	68,271	4,674	483	9	73,437	12,397	10	64	84	158	—	1.4	17.4	0.2
>70% and ≤80%	24,004	1,255	93	1	25,353	10,964	3	18	15	36	—	1.4	16.1	0.1
>80% and ≤90%	5,983	250	22	1	6,256	4,985	1	8	5	14	—	3.2	22.7	0.2
>90% and ≤100%	1,125	58	10	—	1,193	1,098	—	5	3	8	—	8.6	30.0	0.7
>100%	14	18	6	—	38	—	—	1	2	3	—	5.6	33.3	7.9
Total with LTVs	160,630	10,803	1,258	74	172,765	35,289	21	156	249	426	—	1.4	19.8	0.2
Other	14	1	1	—	16	1	—	—	—	—	—	—	—	—
Total	160,644	10,804	1,259	74	172,781	35,290	21	156	249	426	—	1.4	19.8	0.2

(1) Excludes a non-material amount of provisions held on relatively small legacy portfolios.
(2) ECL provisions coverage is ECL provisions divided by mortgages.

– The reduced coverage level in the lower LTV bands for Retail Banking, relative to 31 December 2021, reflected the implementation of a new IFRS 9 LGD model with a modelling approach that now captures a reduced loss expectation from non-repossession recovery action.

– Continued stable portfolio performance alongside the new IFRS 9 PD and LGD model implementations resulted in reduced coverage across most LTV bands in Stage 2 and Stage 3. The increased ECL across Stage 1 LTV bands was mainly due to higher Stage 1 PDs as a result of the new PD model implementation and also the proportionate allocation of the economic uncertainty post model adjustment to Stage 1.

Credit risk – Banking activities continued

Personal portfolio (audited)

Retail Banking mortgage LTV distribution by region

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

										Flood risk*
	≤50%	50%≤80%	80%≤100%	>100%	Total	Weighted average LTV	Other	Total	Total	lending at high/very high risk**
2022	£m	£m	£m	£m	£m	%	£m	£m	%	%
South East	15,856	17,670	1,396	1	34,923	51	3	34,926	19	4.1
Greater London	15,200	17,550	1,336	1	34,087	51	3	34,090	18	2.3
Scotland	5,024	6,174	1,163	1	12,362	54	1	12,363	7	3.2
North West	7,670	8,672	1,236	2	17,580	52	2	17,582	9	2.2
South West	7,874	7,922	627	—	16,423	50	1	16,424	9	3.0
West Midlands	5,477	7,014	862	1	13,354	53	1	13,355	7	1.2
East of England	9,241	11,492	987	2	21,722	52	2	21,724	12	2.1
Rest of the UK	14,312	19,408	2,712	43	36,475	54	48	36,523	19	3.2
Total	80,654	95,902	10,319	51	186,926	52	61	186,987	100	2.8
2021										
South East	13,160	18,298	886	1	32,345	53	3	32,348	19	4.4
Greater London	13,308	16,716	1,477	1	31,502	53	3	31,505	18	2.5
Scotland	4,493	6,529	559	2	11,583	54	1	11,584	7	3.5
North West	6,598	9,212	654	3	16,467	53	2	16,469	10	2.4
South West	6,140	8,619	499	1	15,259	53	2	15,261	9	3.4
West Midlands	4,323	7,449	553	1	12,326	55	1	12,327	6	1.8
East of England	7,467	11,679	820	1	19,967	54	2	19,969	12	2.6
Rest of the UK	10,937	20,278	2,001	26	33,242	56	2	33,244	19	3.6
Total	66,426	98,780	7,449	36	172,691	54	16	172,707	100	3.1

*Not within audit scope.

**Flood hazard is modelled by looking at the four different types of flooding (surface water, ground water, coastal and river) and calculating the frequency and depth of flooding nationally to derive flood maps. Flood defences are considered where available. Flood scores are allocated per property based on the potential flood damage to property dependent on the type, frequency and depth of flooding modelled across different return periods. The scoring ranges from 0 to 53, with 0 being lowest and 53 being the highest risk. We consider a score of 11 and above to be high risk and properties with a score of 31 and above within the very high risk category after flood mitigants are taken into account. This is not within audit scope.

Credit risk – Banking activities continued

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

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

	31 December 2022			31 December 2021		
EPC rating	Owner Occupied £bn	Buy-to-let £bn	Total £bn	Owner Occupied £bn	Buy-to-let £bn	Total £bn
A	424	12	436	282	8	290
B	19,874	1,342	21,216	15,719	852	16,571
C	28,049	5,228	33,277	22,138	3,178	25,316
D	47,497	6,033	53,530	41,814	4,187	46,001
E	17,153	1,687	18,840	16,238	1,332	17,570
F	3,691	86	3,777	3,637	113	3,750
G	789	21	810	734	27	761
Unclassified	51,313	3,692	55,005	57,497	4,951	62,448
Total	168,790	18,101	186,891	158,059	14,648	172,707

*Not within audit scope.

As at 31 December 2022, £138.8 billion, 68%, of the total UK residential mortgages portfolio, including both Private Banking and Retail Banking mortgages had Energy Performance Certificate (EPC) data available (2021 – £116.2 billion, 62%). Of which, 41.5% were rated as EPC A to C (2021 – 38.3%). EPC data source and limitations are provided in section 5.2 of the 2022 NatWest Group Climate-related Disclosures Report

Commercial real estate (CRE)*

The CRE portfolio comprises exposures to entities involved in the development of, or investment in, commercial and residential properties (including house builders but excluding housing associations, construction and the building materials sub-sector). The sector is reviewed regularly by senior executive committees. Reviews include portfolio credit quality, capital consumption and control frameworks.

	2022				2021			
By geography and sub-sector (1)	UK £m	RoI £m	Other £m	Total £m	UK £m	RoI £m	Other £m	Total £m
Investment								
Residential (2)	4,583	2	13	4,598	4,326	10	16	4,352
Office (3)	2,781	10	—	2,791	3,030	13	10	3,053
Retail (4)	3,754	—	—	3,754	4,157	24	—	4,181
Industrial (5)	2,939	—	184	3,123	2,758	2	106	2,866
Mixed/other (6)	876	7	46	929	1,175	24	49	1,248
	14,933	19	243	15,195	15,446	73	181	15,700
Development								
Residential (2)	1,693	7	—	1,700	1,775	34	2	1,811
Office (3)	81	—	—	81	79	—	—	79
Retail (4)	56	—	—	56	48	—	—	48
Industrial (5)	90	—	—	90	67	—	—	67
Mixed/other (6)	14	1	—	15	20	2	—	22
	1,934	8	—	1,942	1,989	36	2	2,027
Total	16,867	27	243	17,137	17,435	109	183	17,727

*Not within audit scope.

(1) Geographical splits are based on country of collateral risk.
(2) Properties including houses, flats and student accommodation.
(3) Properties including offices in central business districts, regional headquarters and business parks.
(4) Properties including high street retail, shopping centres, restaurants, bars and gyms.
(5) Properties including distribution centres, manufacturing and warehouses.
(6) Properties that do not fall within the other categories above. Mixed generally relates to a mixture of retail/office with residential.

Credit risk – Banking activities continued

Commercial real estate (CRE)

CRE LTV distribution by stage (audited)

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

	Current exposure (gross of provisions)					ECL provisions				ECL provisions coverage (2)			
2022	Stage 1 £m	Stage 2 £m	Stage 3 £m	Not within IFRS 9 ECL scope (1) £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 %	Stage 2 %	Stage 3 %	Total %
≤50%	7,010	658	57	67	7,792	36	12	16	64	0.5	1.8	28.1	0.8
>50% and ≤70%	3,515	798	43	19	4,375	23	18	12	53	0.7	2.3	27.9	1.2
>70% and ≤100%	259	82	156	7	504	1	3	42	46	0.4	3.7	26.9	9.1
>100%	102	10	23	1	136	1	1	14	16	1.0	10.0	60.9	11.8
Total with LTVs	10,886	1,548	279	94	12,807	61	34	84	179	0.6	2.2	30.1	1.4
Total portfolio average LTV%	45%	52%	75%	44%	47%								
Other (3)	1,800	627	55	86	2,568	9	15	27	51	0.5	2.4	49.1	2.0
Development (4)	1,553	332	57	7	1,949	13	8	28	49	0.8	2.4	49.1	2.5
Total	14,239	2,507	391	187	17,324	83	57	139	279	0.6	2.3	35.6	1.6
2021													
≤50%	6,767	388	34	268	7,457	5	7	9	21	0.1	1.8	26.5	0.3
>50% and ≤70%	4,367	470	46	469	5,352	3	13	20	36	0.1	2.8	43.5	0.7
>70% and ≤100%	377	192	127	9	705	—	9	32	41	—	4.7	25.2	5.8
>100%	215	7	86	4	312	—	2	28	30	—	28.6	32.6	9.6
Total with LTVs	11,726	1,057	293	750	13,826	8	31	89	128	0.1	2.9	30.4	0.9
Total portfolio average LTV%	48%	58%	88%	52%	50%								
Other (3)	2,271	293	61	83	2,708	4	13	28	45	0.2	4.4	45.9	1.7
Development (4)	1,736	228	62	77	2,103	3	6	34	43	0.2	2.6	54.8	2.0
Total	15,733	1,578	416	910	18,637	15	50	151	216	0.1	3.2	36.3	1.2

(1) Includes exposures relating to non-modelled portfolios and other exposures carried at fair value.
(2) ECL provisions coverage is ECL provisions divided by gross loans.
(3) Relates mainly to business banking, rate risk management products and unsecured corporate lending.
(4) Relates to the development of commercial and residential properties. LTV is not a meaningful measure for this type of lending activity.

- Overall – The majority of the CRE portfolio was located and managed in the UK. Business appetite and strategy was aligned across NatWest Group.
- 2022 trends – The commercial property cycle turned around mid-year as rising interest rates started to put upward pressure on property yields. Commercial property values declined by an average of approximately 20% from their mid-year peak, ending the year approximately 14% lower. The industrial sector saw values fall fastest to date, yet it continues to attract strong occupier demand and may, therefore, be the first sector to see values stabilise. Secondary offices which don't match modern sustainability standards appear most at risk from further value loss. The residential sector has yet to show significant value declines, but transaction activity has slowed materially and is expected to remain weak until values have adjusted. The spike in mortgage costs last year would be expected to push prices down across the market in 2023. In contrast, residential rents appreciated rapidly in 2022 and professionally managed rental assets are expected to be relatively robust in 2023.
- Credit quality – Credit quality was stable for the first nine months of the year but the impacts from the increase in base rate, projected capital value falls, inflationary pressures and concerns over recession for some customers began to materialise. Inflows into the Risk of Credit Loss framework picked up in Q4, but remained relatively low in volume terms, compared to previous downturns.
- Risk appetite – Lending appetite is subject to regular review with some level of tightening undertaken in 2022. Demand for facilities reduced significantly in Q4 as the market reacted to the various negative news points.

Credit risk – Banking activities continued

Flow statements (audited)

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

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

	Stage 1		Stage 2		Stage 3		Total	
NatWest Group total	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m
At 1 January 2022	546,178	302	35,557	1,478	5,238	2,026	586,973	3,806
Currency translation and other adjustments	6,129	—	144	3	56	33	6,329	36
Transfers from Stage 1 to Stage 2	(55,848)	(226)	55,848	226	—	—	—	—
Transfers from Stage 2 to Stage 1	31,657	827	(31,657)	(827)	—	—	—	—
Transfers to Stage 3	(621)	(4)	(3,679)	(265)	4,300	269	—	—
Transfers from Stage 3	485	34	842	77	(1,327)	(111)	—	—
Net re-measurement of ECL on stage transfer		(701)		1,090	—	352		741
Changes in risk parameters		286		(399)	—	140		27
Other changes in net exposure	(12,164)	125	(7,911)	(293)	(1,969)	(96)	(22,044)	(264)
Other (P&L only items)		—		(5)	—	(162)		(167)
Income statement (releases)/charges		(290)		393		234		337
Transfers to disposal groups and fair value	(8,277)	(11)	(657)	(42)	(590)	(286)	(9,524)	(339)
Amounts written-off	—	—	(5)	(5)	(477)	(477)	(482)	(482)
Unwinding of discount	—	—		—		(91)		(91)
At 31 December 2022	507,539	632	48,482	1,043	5,231	1,759	561,252	3,434
Net carrying amount	506,907		47,439		3,472		557,818	
At 1 January 2021	446,666	519	81,667	3,081	6,524	2,586	534,857	6,186
2021 movements	99,512	(217)	(46,110)	(1,603)	(1,286)	(560)	52,116	(2,380)
At 31 December 2021	546,178	302	35,557	1,478	5,238	2,026	586,973	3,806
Net carrying amount	545,876		34,079		3,212		583,167	

Credit risk – Banking activities continued

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
Retail Banking - mortgages	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m
At 1 January 2022	159,966	24	10,748	155	1,267	250	171,981	429
Currency translation and other adjustments	—	—	—	—	10	8	10	8
Transfers from Stage 1 to Stage 2	(18,858)	(9)	18,858	9	—	—	—	—
Transfers from Stage 2 to Stage 1	8,261	69	(8,261)	(69)	—	—	—	—
Transfers to Stage 3	(53)	—	(1,286)	(36)	1,339	36	—	—
Transfers from Stage 3	42	1	395	18	(437)	(19)	—	—
Net re-measurement of ECL on stage transfer		(66)		95		(13)		16
Changes in risk parameters		59		(93)		32		(2)
Other changes in net exposure	15,906	1	(1,622)	(17)	(389)	(11)	13,895	(27)
Other (P&L only items)		—		(2)		(62)		(64)
Income statement (releases)/charges		(6)		(17)		(54)		(77)
Amounts written-off	—	—	(1)	(1)	(28)	(28)	(29)	(29)
Unwinding of discount		—		—		(40)		(40)
At 31 December 2022	165,264	79	18,831	61	1,762	215	185,857	355
Net carrying amount	165,185		18,770		1,547		185,502	
At 1 January 2021	132,390	23	28,079	227	1,291	236	161,760	486
2021 movements	27,576	1	(17,331)	(72)	(24)	14	10,221	(57)
At 31 December 2021	159,966	24	10,748	155	1,267	250	171,981	429
Net carrying amount	159,942		10,593		1,017		171,552	

- Despite the strong portfolio growth during 2022, ECL levels for mortgages reduced during the year, primarily as a result of stable portfolio performance alongside the implementation of new IFRS 9 models in Q1 2022.
- More specifically, in H1 2022, strong credit performance resulted in the migration of assets from Stage 2 into Stage 1, with an associated decrease from lifetime ECL to a 12 month ECL. ECL levels increased in the second half of the year as the portfolio continued to grow and the economic outlook deteriorated, increasing IFRS 9 PDs and the level of migrations from Stage 1 into Stage 2.
- The economic uncertainty post model adjustment allocated more ECL to Stage 1 given the forward-looking nature of the inflation threat on customer affordability, whereas the previous COVID-19 post model adjustment was focused on Stage 2 (for example, high risk payment holiday cases migrated into Stage 2). Refer to the Governance and post model adjustments section for more information.
- The Stage 3 inflow was amplified by the adoption of the new regulatory definition of default in January 2022. However, Stage 3 ECL levels decreased since 31 December 2021, primarily due to reduced LGD estimates as a result of the new model implementation in Q1 2022 alongside stable underlying default levels. The relatively small ECL cost for net re-measurement on stage transfer included the effect of risk targeted ECL adjustments, when previously in Stage 2. Refer to the Governance and post model adjustments section for further details.
- Write-off typically occurs once the repossessed property has been sold and there is a residual shortfall balance remaining outstanding. This would typically be within five years from default but can be longer.

Credit risk – Banking activities continued

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
Retail Banking - credit cards	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m
At 1 January 2022	2,740	58	947	141	91	60	3,778	259
Currency translation and other adjustments	—	—	—	—	1	1	1	1
Transfers from Stage 1 to Stage 2	(1,278)	(41)	1,278	41	—	—	—	—
Transfers from Stage 2 to Stage 1	942	101	(942)	(101)	—	—	—	—
Transfers to Stage 3	(23)	(1)	(102)	(42)	125	43	—	—
Transfers from Stage 3	2	1	9	3	(11)	(4)	—	—
Net re-measurement of ECL on stage transfer		(64)		161		29		126
Changes in risk parameters		7		(29)		15		(7)
Other changes in net exposure	679	—	(92)	(54)	(27)	(1)	560	(55)
Other (P&L only items)		—		—		(6)		(6)
Income statement (releases)/charges		(57)		78		37		58
Amounts written-off	—	—	—	—	(66)	(66)	(66)	(66)
Unwinding of discount		—		—		(6)		(6)
At 31 December 2022	3,062	61	1,098	120	113	71	4,273	252
Net carrying amount	3,001		978		42		4,021	
At 1 January 2021	2,250	52	1,384	220	114	75	3,748	347
2021 movements	490	6	(437)	(79)	(23)	(15)	30	(88)
At 31 December 2021	2,740	58	947	141	91	60	3,778	259
Net carrying amount	2,682		806		31		3,519	

- ECL remained broadly stable during 2022 reflecting stable portfolio performance and the unwind of ECL held for COVID-19 related risks in the first half of the year that resulted in reduced levels of SICR identification and ECL requirement. In addition, a new credit card PD model implementation resulted in a net ECL decrease of £26 million. This is included in changes in risk parameters for Stage 1 and Stage 2.
- Similar to mortgages, ECL levels increased in the second half of the year as the economic outlook deteriorated, increasing IFRS 9 PDs and the level of migrations from Stage 1 into Stage 2.
- Credit card balances grew since 31 December 2021, in line with industry trends in the UK, as unsecured borrowing demand increased.
- Reflecting the strong credit performance observed during 2022, Stage 3 inflows remained subdued and the effect of the adoption of the new regulatory definition of default was minimal for credit cards.
- Charge-off (analogous to partial write-off) typically occurs after 12 missed payments.

Credit risk – Banking activities continued

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
Retail Banking - other personal unsecured	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m
At 1 January 2022	4,548	52	1,967	294	629	540	7,144	886
Currency translation and other adjustments	—	—	—	(1)	9	10	9	9
Transfers from Stage 1 to Stage 2	(2,797)	(85)	2,797	85	—	—	—	—
Transfers from Stage 2 to Stage 1	1,948	225	(1,948)	(225)	—	—	—	—
Transfers to Stage 3	(40)	(1)	(356)	(111)	396	112	—	—
Transfers from Stage 3	5	3	39	20	(44)	(23)	—	—
Net re-measurement of ECL on stage transfer		(177)		296		115		234
Changes in risk parameters		38		(34)		35		39
Other changes in net exposure	1,120	56	(471)	(55)	(90)	(26)	559	(25)
Other (P&L only items)		—		—		—		—
Income statement (releases)/charges		(83)		207		124		248
Amounts written-off	—	—	—	—	(121)	(121)	(121)	(121)
Unwinding of discount		—		—		(11)		(11)
At 31 December 2022	4,784	111	2,028	269	779	631	7,591	1,011
Net carrying amount	4,673		1,759		148		6,580	
At 1 January 2021	3,385	59	3,487	450	596	495	7,468	1,004
2021 movements	1,163	(7)	(1,520)	(156)	33	45	(324)	(118)
At 31 December 2021	4,548	52	1,967	294	629	540	7,144	886
Net carrying amount	4,496		1,673		89		6,258	

- Overall, there was a modest ECL increase, mainly due to portfolio growth in the personal loan portfolio during 2022 and Stage 3 ECL, linked to the adoption of the new regulatory definition of default in January 2022, with underlying Stage 3 inflows remaining stable.
- Similar to the other personal portfolios, after reductions in the first half of the year, Stage 2 ECL levels increased in the second half of the year as the economic outlook deteriorated, increasing IFRS 9 PDs and the level of migrations from Stage 1 into Stage 2.
- Unsecured retail lending balances grew since 31 December 2021, in line with industry trends in the UK, as unsecured borrowing demand increased.
- Write-off occurs once recovery activity with the customer has been concluded or there are no further recoveries expected, but no later than six years after default.

Credit risk – Banking activities continued

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
Commercial & Institutional total	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m
At 1 January 2022	152,224	129	19,731	785	2,155	750	174,110	1,664
Currency translation and other adjustments	3,336	(1)	146	(1)	23	4	3,505	2
Inter-group transfers	—	—	—	—	—	—	—	—
Transfers from Stage 1 to Stage 2	(30,103)	(80)	30,103	80	—	—	—	—
Transfers from Stage 2 to Stage 1	18,729	400	(18,729)	(400)	—	—	—	—
Transfers to Stage 3	(232)	(1)	(1,667)	(65)	1,899	66	—	—
Transfers from Stage 3	217	29	194	27	(411)	(56)	—	—
Net re-measurement of ECL on stage transfer		(371)		505		212		346
Changes in risk parameters		172		(256)		68		(16)
Other changes in net exposure	16,181	65	(5,063)	(137)	(1,248)	(48)	9,870	(120)
Other (P&L only items)		(1)		(4)		(83)		(88)
Income statement (releases)/charges		(135)		108		149		122
Amounts written-off	—	—	(4)	(4)	(220)	(220)	(224)	(224)
Unwinding of discount		—		—		(29)		(29)
At 31 December 2022	160,352	342	24,711	534	2,198	747	187,261	1,623
Net carrying amount	160,010		24,177		1,451		185,638	
At 1 January 2021	131,307	296	42,290	1,836	2,998	1,249	176,595	3,381
2021 movements	20,917	(167)	(22,559)	(1,051)	(843)	(499)	(2,485)	(1,717)
At 31 December 2021	152,224	129	19,731	785	2,155	750	174,110	1,664
Net carrying amount	152,095		18,946		1,405		172,446	

(1) Flows relating to the SME portion of Commercial & Institutional is included in the relevant sector sub-sector tables.

- Exposure growth was mainly due to increased exposure to larger corporate customers and financial institutions, notably leveraged funds, information technology, telecommunications and power utilities.
- Stage 1 and Stage 2 ECL levels increased in the second half of the year as the economic outlook deteriorated, increasing IFRS 9 PDs and the level of migrations from Stage 1 into Stage 2.
- Stage 2 ECL increases were more than offset by reductions in post model adjustments.
- There were significant flows into Stage 3 due to defaults on government scheme lending, principally BBLS, with exposure reductions where payments on guarantees have been received.

Credit risk – Banking activities continued

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
Commercial & Institutional - corporate	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m
At 1 January 2022	49,066	91	15,305	643	1,378	527	65,749	1,261
Currency translation and other adjustments	656	—	124	(1)	18	7	798	6
Inter-group transfers	—	1	—	(3)	—	—	—	(2)
Transfers from Stage 1 to Stage 2	(21,063)	(60)	21,063	60	—	—	—	—
Transfers from Stage 2 to Stage 1	13,594	305	(13,594)	(305)	—	—	—	—
Transfers to Stage 3	(161)	(1)	(1,143)	(49)	1,304	50	—	—
Transfers from Stage 3	117	23	126	21	(243)	(44)	—	—
Net re-measurement of ECL on stage transfer		(283)		389		157		263
Changes in risk parameters		95		(223)		(2)		(130)
Other changes in net exposure	7,079	39	(3,098)	(105)	(906)	(30)	3,075	(96)
Other (P&L only items)		—		(2)		(77)		(79)
Income statement (releases)/charges		(149)		59		48		(42)
Amounts written-off	—	—	(4)	(4)	(154)	(154)	(158)	(158)
Unwinding of discount		—		—		(14)		(14)
At 31 December 2022	49,288	210	18,779	423	1,397	497	69,464	1,130
Net carrying amount	49,078		18,356		900		68,334	

- Exposure growth was driven by increased exposure to larger corporate customers, information technology, telecommunications and power utilities.
- Stage 1 and Stage 2 ECL levels increased in the second half of the year as the economic outlook deteriorated, increasing IFRS 9 PDs and the level of migrations from Stage 1 into Stage 2.
- Stage 2 ECL increases were more than offset by reductions in post model adjustments.
- There were significant flows into Stage 3 due to defaults on government scheme lending, principally BBLS, with exposure reductions where payments on guarantees have been received.

Credit risk – Banking activities continued

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
Commercial & Institutional - property	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m
At 1 January 2022	26,991	22	3,128	99	678	208	30,797	329
Currency translation and other adjustments	29	1	—	—	—	(9)	29	(8)
Inter-group transfers	—	(1)	—	—	—	—	—	(1)
Transfers from Stage 1 to Stage 2	(5,654)	(17)	5,654	17	—	—	—	—
Transfers from Stage 2 to Stage 1	2,672	47	(2,672)	(47)	—	—	—	—
Transfers to Stage 3	(49)	—	(431)	(16)	480	16	—	—
Transfers from Stage 3	56	6	61	6	(117)	(12)	—	—
Net re-measurement of ECL on stage transfer		(46)		94		44		92
Changes in risk parameters		71		(27)		28		72
Other changes in net exposure	2,089	17	(1,439)	(30)	(375)	(18)	275	(31)
Other (P&L only items)		(1)		—		(7)		(8)
Income statement (releases)/charges		41		37		47		125
Amounts written-off	—	—	—	—	(24)	(24)	(24)	(24)
Unwinding of discount		—		—		(13)		(13)
At 31 December 2022	26,134	100	4,301	96	642	220	31,077	416
Net carrying amount	26,034		4,205		422		30,661	

- Stage 1 and Stage 2 ECL levels increased in the second half of the year as the economic outlook deteriorated, increasing IFRS 9 PDs and the level of migrations from Stage 1 into Stage 2.
- Stage 2 ECL increases were partially offset by reductions in post model adjustments.
- There were significant flows into Stage 3 due to defaults on government scheme lending, principally BBLS, with exposure reductions where payments on guarantees have been received.

Credit risk – Banking activities continued

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
Commercial & Institutional - other	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m
At 1 January 2022	76,167	16	1,298	43	99	15	77,564	74
Currency translation and other adjustments	2,649	—	22	—	5	4	2,676	4
Inter-group transfers	—	(1)	—	5	—	(2)	—	2
Transfers from Stage 1 to Stage 2	(3,387)	(4)	3,387	4	—	—	—	—
Transfers from Stage 2 to Stage 1	2,464	48	(2,464)	(48)	—	—	—	—
Transfers to Stage 3	(21)	—	(93)	(1)	114	1	—	—
Transfers from Stage 3	45	—	7	—	(52)	—	—	—
Net re-measurement of ECL on stage transfer		(43)		22		12		(9)
Changes in risk parameters		7		(6)		41		42
Other changes in net exposure	7,013	9	(526)	(4)	34	(1)	6,521	4
Other (P&L only items)		—		—		2		2
Income statement (releases)/charges		(27)		12		54		39
Amounts written-off	—	—	—	—	(41)	(41)	(41)	(41)
Unwinding of discount		—		—		(1)		(1)
At 31 December 2022	84,930	32	1,631	15	159	30	86,720	77
Net carrying amount	84,898		1,616		129		86,643	

(1) Commercial & Institutional other includes FIs, Sovereigns, and non-wholesale elements of Commercial & Institutional.

- Stage 1 and Stage 2 ECL levels increased in the second half of the year as the economic outlook deteriorated, increasing IFRS 9 PDs and the level of migrations from Stage 1 into Stage 2.
- Stage 2 ECL increases were more than offset by reductions in post model adjustments.
- The reduction in post model adjustments more than offset ECL increases from deteriorating economics.

Credit risk – Banking activities continued

Stage 2 decomposition – arrears status and contributing factors

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

	UK mortgages		Credit cards		Other		Total	
	Loans £m	ECL £m	Loans £m	ECL £m	Loans £m	ECL £m	Loans £m	ECL £m
2022								
Personal								
Currently >30 DPD	**205**	**1**	**10**	**5**	**52**	**18**	**267**	**24**
Currently <=30 DPD	**18,582**	**61**	**1,066**	**117**	**1,939**	**264**	**21,587**	**442**
- PD deterioration	***16,342***	***56***	***805***	***97***	***1,093***	***150***	***18,240***	***303***
- PD persistence	***867***	***2***	***200***	***13***	***185***	***16***	***1,252***	***31***
- Other driver (adverse credit, forbearance etc)	***1,373***	***3***	***61***	***7***	***661***	***98***	***2,095***	***108***
Total Stage 2	**18,787**	**62**	**1,076**	**122**	**1,991**	**282**	**21,854**	**466**
2021								
Personal								
Currently >30 DPD	397	9	11	6	88	16	496	31
Currently <=30 DPD	10,593	148	922	135	2,412	300	13,927	583
- PD deterioration	*2,400*	*56*	*549*	*96*	*1,028*	*178*	*3,977*	*330*
- PD persistence	*3,088*	*38*	*270*	*23*	*791*	*92*	*4,149*	*153*
- Other driver (adverse credit, forbearance etc)	*5,105*	*54*	*103*	*16*	*593*	*30*	*5,801*	*100*
Total Stage 2	10,990	157	933	141	2,500	316	14,423	614

– The deterioration in economic outlook during the second half of the year resulted in increased account level IFRS 9 PDs at the year end. Consequently, compared to 2021, a larger proportion of accounts exhibited significant PD deterioration causing Stage 2 exposures to increase significantly since 30 June 2022.
– Higher risk Personal customers who had accessed COVID-19 payment holiday support are no longer collectively migrated into Stage 2 with the focus of high risk segment monitoring now shifting to the effects of a high inflation environment on customers. In UK mortgages at 31 December 2021, approximately £0.8 billion of exposures were previously collectively migrated from Stage 1 into Stage 2.
– Accounts that are less than 30 days past due continue to represent the vast majority of the Stage 2 population. As expected, ECL coverage was higher in accounts that were more than 30 days past due than those in Stage 2 for other reasons.

	Property		Corporate		Financial institutions		Sovereign		Total	
	Loans £m	ECL £m	Loans £m	ECL £m	Loans £m	ECL £m	Loans £m	ECL £m	Loans £m	ECL £m
2022										
Wholesale										
Currently >30 DPD	**259**	**3**	**476**	**11**	**3**	**—**	**7**	**—**	***745***	***14***
Currently <=30 DPD	**4,057**	**102**	**18,677**	**446**	**1,350**	**14**	**150**	**1**	**24,234**	**563**
- PD deterioration	***2,739***	***68***	***15,399***	***351***	***1,230***	***10***	***79***	***—***	***19,447***	***429***
- PD persistence	***87***	***3***	***263***	***9***	***5***	***—***	***—***	***—***	***355***	***12***
- Other driver (forbearance, RoCL etc)	***1,231***	***31***	***3,015***	***86***	***115***	***4***	***71***	***1***	***4,432***	***122***
Total Stage 2	**4,316**	**105**	**19,153**	**457**	**1,353**	**14**	**157**	**1**	**24,979**	**577**
2021										
Wholesale										
Currently >30 DPD	239	3	390	8	19	—	—	—	648	11
Currently <=30 DPD	2,862	108	15,214	705	713	39	121	1	18,910	853
- PD deterioration	*896*	*57*	*10,391*	*549*	*595*	*36*	*84*	*1*	*11,966*	*643*
- PD persistence	*139*	*8*	*552*	*32*	*6*	*—*	*1*	*—*	*698*	*40*
- Other driver (forbearance, RoCL etc)	*1,827*	*43*	*4,271*	*124*	*112*	*3*	*36*	*—*	*6,246*	*170*
Total Stage 2	3,101	111	15,604	713	732	39	121	1	19,558	864

– The deteriorating economic outlook, including lower growth in GDP and the stock index as well as a reduction in commercial real estate prices, resulted in a significant increase in IFRS 9 PDs. Consequently, compared to 2021, a larger proportion of exposure exhibited a SICR and migrated into Stage 2, resulting in an increase in Stage 2 exposure.
– PD deterioration remained the primary trigger for identifying a SICR and Stage 2 treatment, proportionally increasing due to the deteriorating economic outlook.
– There was a decrease in Risk of Credit Loss partially due to PD deterioration being the primary trigger. Overall, there was a decrease in flows on to the Risk of Credit Loss framework, although inflows into the framework began to increase in Q4 2022.

Credit risk – Banking activities continued

Stage 2 decomposition – by a significant increase in credit risk trigger

	UK mortgages		Credit cards		Other		Total	
2022	£m	%	£m	%	£m	%	£m	%
Personal trigger (1)								
PD movement	**16,477**	**87.7**	**814**	**75.7**	**1,129**	**56.7**	**18,420**	**84.3**
PD persistence	**866**	**4.6**	**200**	**18.6**	**186**	**9.3**	**1,252**	**5.7**
Adverse credit bureau recorded with credit reference agency	**929**	**4.9**	**52**	**4.8**	**96**	**4.8**	**1,077**	**4.9**
Forbearance support provided	**101**	**0.5**	**1**	**0.1**	**17**	**0.9**	**119**	**0.5**
Customers in collections	**153**	**0.8**	**2**	**0.2**	**4**	**0.2**	**159**	**0.7**
Collective SICR and other reasons (2)	**195**	**1.0**	**7**	**0.7**	**546**	**27.4**	**748**	**3.4**
Days past due >30	**66**	**0.4**	**—**	**—**	**13**	**0.7**	**79**	**0.4**
	18,787	**100.0**	**1,076**	**100.0**	**1,991**	**100.0**	**21,854**	**100.0**
2021								
Personal trigger (1)								
PD movement	2,707	24.6	560	60.1	1,091	43.6	4,358	30.2
PD persistence	3,103	28.2	270	28.9	792	31.7	4,165	28.9
Adverse credit bureau recorded with credit reference agency	3,657	33.3	60	6.4	73	2.9	3,790	26.3
Forbearance support provided	178	1.6	2	0.2	34	1.4	214	1.5
Customers in collections	82	0.8	3	0.3	48	1.9	133	0.9
Collective SICR and other reasons (2)	1,197	10.9	38	4.1	455	18.2	1,690	11.7
Days past due >30	66	0.6	—	—	7	0.3	73	0.5
	10,990	100	933	100	2,500	100	14,423	100

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

- During the first half of the year, the stable credit performance of the portfolio resulted in either decreased or stable account level IFRS 9 PDs for most products. UK mortgages was the exception, where the implementation of a new IFRS 9 PD model in Q1 2022 increased the proportion of accounts exhibiting significant PD deterioration.
- However, in the second half of the year, the economic uncertainty and high inflation environment, which is reflected in the recent updates to the IFRS 9 MES scenarios, resulted in PDs increasing again. This is reflected both in an increase in Stage 2 across all products compared to 31 December 2021 and an increased proportion of Stage 2 driven by PD deterioration.
- Personal customers who had accessed COVID-19 payment holiday support, and where their risk profile was identified as relatively high risk are no longer collectively migrated into Stage 2, given the lack of default emergence from these segments and with the focus of high risk segment monitoring now shifting to the effects of a high inflation environment on customers. In UK mortgages at 31 December 2021, approximately £0.8 billion of exposures were previously collectively migrated from Stage 1 into Stage 2.

Credit risk – Banking activities continued

Stage 2 decomposition – by a significant increase in credit risk trigger continued

2022	Property £m	Property %	Corporate £m	Corporate %	Financial institutions £m	Financial institutions %	Sovereign £m	Sovereign %	Total £m	Total %
Wholesale trigger (1)										
PD movement	2,807	65.0	15,645	81.7	1,231	91.0	79	50.3	19,762	79.2
PD persistence	88	2.0	263	1.4	5	0.4	—	—	356	1.4
Risk of Credit Loss	618	14.4	1,587	8.3	32	2.4	55	35.0	2,292	9.2
Forbearance support provided	44	1.0	473	2.5	19	1.4	—	—	536	2.1
Customers in collections	13	0.3	44	0.2	—	—	—	—	57	0.2
Collective SICR and other reasons (2)	575	13.3	946	4.9	64	4.7	16	10.2	1,601	6.4
Days past due >30	171	4.0	195	1.0	2	0.1	7	4.5	375	1.5
	4,316	100.0	19,153	100.0	1,353	100.0	157	100.0	24,979	100.0

2021										
Wholesale trigger (1)										
PD movement	942	30.3	10,553	67.7	595	81.3	84	69.4	12,174	62.2
PD persistence	139	4.5	553	3.5	6	0.8	1	0.8	699	3.6
Risk of Credit Loss	962	31.0	2,626	16.8	71	9.7	34	28.1	3,693	18.9
Forbearance support provided	101	3.3	489	3.1	6	0.8	—	—	596	3.0
Customers in collections	27	0.9	88	0.6	1	0.1	—	—	116	0.6
Collective SICR and other reasons (2)	762	24.6	1,189	7.6	35	4.8	2	1.7	1,988	10.2
Days past due >30	168	5.4	106	0.7	18	2.5	—	—	292	1.5
	3,101	100	15,604	100	732	100	121	100	19,558	100

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

- PD deterioration continued to be the primary trigger of migration of exposures from Stage 1 into Stage 2. There was an increase in cases triggering PD deterioration reflecting the deteriorating economic outlook.
- Moving exposures on to the Risk of Credit Loss framework remained an important backstop indicator of a SICR. The exposures classified under the Stage 2 Risk of Credit Loss framework decreased over the period due to the increase in PD deterioration.
- PD persistence related to the Business Banking portfolio only. A reduction in PDs in 2021 meant that some Business Banking customers returned to Stage 1 in early 2022, although a number of these customers returned through PD movement in the second half of the year due to the deteriorating economic outlook.

Stage 3 vintage analysis

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

	2022 Retail Banking mortgages	2022 Wholesale	2021 Retail Banking mortgages	2021 Wholesale
Stage 3 loans (£bn)	1.7	2.5	1.2	2.1
Vintage (time in default):				
<1 year	43%	29%	26%	19%
1-3 years	26%	12%	30%	20%
3-5 years	12%	7%	13%	7%
5-10 years	9%	52%	17%	54%
>10 years	10%	—	14%	
	100%	100%	100%	100%

- Retail Banking mortgages – The increase in the proportion of loans in Stage 3 for less than one year was mainly due to the adoption of the new regulatory definition of default in January 2022.
- Wholesale – Exposures which were in Stage 3 for in excess of five years, were mainly related to customers being in a protracted formal insolvency process or subject to litigation or a complaints process.

Credit risk – Banking activities continued

Asset quality (audited)

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

	Gross loans				ECL provisions				ECL provisions coverage			
2022	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 %	Stage 2 %	Stage 3 %	Total %
UK mortgages												
AQ1-AQ4	116,559	9,208	—	125,767	45	24	—	69	0.04	0.26	—	0.05
AQ5-AQ8	65,510	8,962	—	74,472	36	34	—	70	0.1	0.4	—	0.1
AQ9	176	617	—	793	—	4	—	4	—	0.7	—	0.5
AQ10	—	—	1,925	1,925	—	—	233	233	—	—	12.1	12.1
	182,245	18,787	1,925	202,957	81	62	233	376	0.0	0.3	12.1	0.2
RoI mortgages												
AQ1-AQ4	—	—	—	—	—	—	—	—	—	—	—	—
AQ5-AQ8	—	—	—	—	—	—	—	—	—	—	—	—
AQ9	—	—	—	—	—	—	—	—	—	—	—	—
AQ10	—	—	—	—	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—	—	—	—	—
Credit cards												
AQ1-AQ4	98	—	—	98	—	—	—	—	—	—	—	—
AQ5-AQ8	3,172	1,036	—	4,208	61	112	—	173	1.9	10.8	—	4.1
AQ9	5	40	—	45	1	10	—	11	20.0	25.0	—	24.4
AQ10	—	—	109	109	—	—	73	73	—	—	67.0	67.0
	3,275	1,076	109	4,460	62	122	73	257	1.9	11.3	67.0	5.8
Other personal												
AQ1-AQ4	1,047	128	—	1,175	11	17	—	28	1.1	13.3	—	2.4
AQ5-AQ8	5,843	1,732	—	7,575	104	224	—	328	1.8	12.9	—	4.3
AQ9	28	131	—	159	2	41	—	43	7.1	31.3	—	27.0
AQ10	—	—	797	797	—	—	651	651	—	—	81.7	81.7
	6,918	1,991	797	9,706	117	282	651	1,050	1.7	14.2	81.7	10.8
Total												
AQ1-AQ4	117,704	9,336	—	127,040	56	41	—	97	0.1	0.4	—	0.1
AQ5-AQ8	74,525	11,730	—	86,255	201	370	—	571	0.3	3.2	—	0.7
AQ9	209	788	—	997	3	55	—	58	1.4	7.0	—	5.8
AQ10	—	—	2,831	2,831	—	—	957	957	—	—	33.8	33.8
	192,438	21,854	2,831	217,123	260	466	957	1,683	0.1	2.1	33.8	0.8

Credit risk – Banking activities continued

Asset quality (audited)

	Gross loans				ECL provisions				ECL provisions coverage			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
2021	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%
UK mortgages												
AQ1-AQ4	93,956	3,157	—	97,113	8	40	—	48	0.01	1.27	—	0.05
AQ5-AQ8	81,160	7,325	—	88,485	17	103	—	120	0.02	1.41	—	0.14
AQ9	290	508	—	798	—	14	—	14	—	2.76	—	1.75
AQ10	—	—	1,451	1,451	—	—	269	269	—	—	18.54	18.54
	175,406	10,990	1,451	187,847	25	157	269	451	0.01	1.43	18.54	0.24
RoI mortgages												
AQ1-AQ4	3,669	226	—	3,895	5	5	—	10	0.14	2.21	—	0.26
AQ5-AQ8	1,335	176	—	1,511	2	6	—	8	0.15	3.41	—	0.53
AQ9	8	151	—	159	—	6	—	6	—	3.97	—	3.77
AQ10	—	—	599	599	—	—	293	293	—	—	48.91	48.91
	5,012	553	599	6,164	7	17	293	317	0.14	3.07	48.91	5.14
Credit cards												
AQ1-AQ4	44	1	—	45	1	—	—	1	2.27	—	—	2.22
AQ5-AQ8	2,874	894	—	3,768	58	130	—	188	2.02	14.54	—	4.99
AQ9	6	38	—	44	—	11	—	11	—	28.95	—	25.00
AQ10	—	—	90	90	—	—	60	60	—	—	66.67	66.67
	2,924	933	90	3,947	59	141	60	260	2.02	15.11	66.67	6.59
Other personal												
AQ1-AQ4	831	88	—	919	6	19	—	25	0.72	21.59	—	2.72
AQ5-AQ8	5,950	1,723	—	7,673	51	243	—	294	0.86	14.10	—	3.83
AQ9	52	136	—	188	1	37	—	38	1.92	27.21	—	20.21
AQ10	—	—	642	642	—	—	557	557	—	—	86.76	86.76
	6,833	1,947	642	9,422	58	299	557	914	0.85	15.36	86.76	9.70
Total personal												
AQ1-AQ4	98,500	3,472	—	101,972	20	64	—	84	0.02	1.84	—	0.08
AQ5-AQ8	91,319	10,118	—	101,437	128	482	—	610	0.14	4.76	—	0.60
AQ9	356	833	—	1,189	1	68	—	69	0.28	8.16	—	5.80
AQ10	—	—	2,782	2,782	—	—	1,179	1,179	—	—	42.38	42.38
	190,175	14,423	2,782	207,380	149	614	1,179	1,942	0.08	4.26	42.38	0.94

- In the Personal portfolio, the asset quality distribution improved overall with high quality new business written during 2022 and existing portfolio quality being maintained.
- The majority of exposures were in AQ1-AQ4, with a significant proportion in AQ5-AQ8. As expected, mortgage exposures have a higher proportion in AQ1-AQ4 than unsecured borrowing.
- The increase in AQ10/Stage 3 balances was mainly because of the IFRS 9 alignment to the new regulatory default definition, implemented on 1 January 2022. This change resulted in an increase in Stage 3 exposures of approximately £0.7 billion, mostly in mortgages.
- In other Personal, the relatively high level of exposures in AQ10 reflected that impaired assets can be held on the balance sheet, with commensurate ECL provision for up to six years after default.
- ECL provisions coverage shows the expected trend with increased coverage in the weaker asset quality bands, and also by stage.
- Across the majority of asset quality bands, migration from Stage 1 into Stage 2 was observed as the effect of updated economic scenarios increased IFRS 9 PDs and therefore Stage 2 exposure.

Credit risk – Banking activities continued

Asset quality (audited)

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

	Gross loans				ECL provisions				ECL provisions coverage			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
2022	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%
Property												
AQ1-AQ4	14,818	600	—	15,418	17	4	—	21	0.11	0.67	—	0.14
AQ5-AQ8	12,712	3,618	—	16,330	90	95	—	185	0.7	2.6	—	1.1
AQ9	12	98	—	110	—	6	—	6	—	6.1	—	5.5
AQ10	—	—	716	716	—	—	229	229	—	—	32.0	32.0
	27,542	4,316	716	32,574	107	105	229	441	0.4	2.4	32.0	1.4
Corporate												
AQ1-AQ4	17,447	5,184	—	22,631	23	37	—	60	0.1	0.7	—	0.3
AQ5-AQ8	35,567	13,643	—	49,210	195	398	—	593	0.6	2.9	—	1.2
AQ9	34	326	—	360	—	22	—	22	—	6.8	—	6.1
AQ10	—	—	1,476	1,476	—	—	553	553	—	—	37.5	37.5
	53,048	19,153	1,476	73,677	218	457	553	1,228	0.4	2.4	37.5	1.7
Financial institutions												
AQ1-AQ4	44,257	914	—	45,171	18	5	—	23	0.0	0.6	—	0.1
AQ5-AQ8	2,479	429	—	2,908	14	9	—	23	0.6	2.1	—	0.8
AQ9	2	10	—	12	—	—	—	—	—	—	—	—
AQ10	—	—	47	47	—	—	17	17	—	—	36.2	36.2
	46,738	1,353	47	48,138	32	14	17	63	0.1	1.0	36.2	0.1
Sovereign												
AQ1-AQ4	5,319	75	—	5,394	15	1	—	16	0.3	1.3	—	0.3
AQ5-AQ8	139	82	—	221	—	—	—	—	—	—	—	—
AQ9	—	—	—	—	—	—	—	—	—	—	—	—
AQ10	—	—	26	26	—	—	3	3	—	—	11.5	11.5
	5,458	157	26	5,641	15	1	3	19	0.3	0.6	11.5	0.3
Total												
AQ1-AQ4	81,841	6,773	—	88,614	73	47	—	120	0.1	0.7	—	0.1
AQ5-AQ8	50,897	17,772	—	68,669	299	502	—	801	0.6	2.8	—	1.2
AQ9	48	434	—	482	—	28	—	28	—	6.5	—	5.8
AQ10	—	—	2,265	2,265	—	—	802	802	—	—	35.4	35.4
	132,786	24,979	2,265	160,030	372	577	802	1,751	0.3	2.3	35.4	1.1
2021												
Property												
AQ1-AQ4	13,529	223	—	13,752	3	7	—	10	0.02	3.14	—	0.07
AQ5-AQ8	15,126	2,742	—	17,868	21	94	—	115	0.14	3.43	—	0.64
AQ9	24	136	—	160	—	10	—	10	—	7.35	—	6.25
AQ10	—	—	742	742	—	—	239	239	—	—	32.21	32.21
	28,679	3,101	742	32,522	24	111	239	374	0.08	3.58	32.21	1.15
Corporate												
AQ1-AQ4	18,378	1,027	—	19,405	8	48	—	56	0.04	4.67	—	0.29
AQ5-AQ8	35,351	13,922	—	49,273	88	621	—	709	0.25	4.46	—	1.44
AQ9	74	655	—	729	—	44	—	44	—	6.72	—	6.04
AQ10	—	—	1,444	1,444	—	—	602	602	—	—	41.69	41.69
	53,803	15,604	1,444	70,851	96	713	602	1,411	0.18	4.57	41.69	1.99
Financial institutions												
AQ1-AQ4	50,121	63	—	50,184	7	1	—	8	0.01	1.59	—	0.02
AQ5-AQ8	2,138	667	—	2,805	7	38	—	45	0.33	5.70	—	1.60
AQ9	4	2	—	6	—	—	—	—	—	—	—	—
AQ10	—	—	46	46	—	—	4	4	—	—	8.70	8.70
	52,263	732	46	53,041	14	39	4	57	0.03	5.33	8.70	0.11
Sovereign												
AQ1-AQ4	5,787	35	—	5,822	19	1	—	20	0.33	2.86	—	0.34
AQ5-AQ8	117	86	—	203	—	—	—	—	—	—	—	—
AQ9	—	—	—	—	—	—	—	—	—	—	—	—
AQ10	—	—	8	8	—	—	2	2	—	—	25.00	25.00
	5,904	121	8	6,033	19	1	2	22	0.32	0.83	25.00	0.36
Total												
AQ1-AQ4	87,815	1,348	—	89,163	37	57	—	94	0.04	4.23	—	0.11
AQ5-AQ8	52,732	17,417	—	70,149	116	753	—	869	0.22	4.32	—	1.24
AQ9	102	793	—	895	—	54	—	54	—	6.81	—	6.03
AQ10	—	—	2,240	2,240	—	—	847	847	—	—	37.81	37.81
	140,649	19,558	2,240	162,447	153	864	847	1,864	0.11	4.42	37.81	1.15

Credit risk – Banking activities continued

Asset quality (audited)

- Across the Wholesale portfolio, asset quality remained stable. The majority of the portfolio was within the AQ1-AQ4, and AQ5-AQ8 bands. Distribution differs across segments reflective of the underlying quality of counterparties, with financial institutions and sovereigns mostly in the AQ1-AQ4 bands, and property and corporates mostly in the AQ5-AQ8 bands.
- Customer credit grades were reassessed as and when a request for financing was made, a scheduled customer credit review was performed or a material credit event specific to that customer occurred. Credit grades are reassessed for all customers at least annually.
- ECL provisions coverage showed the expected trend, with increased coverage in the weaker asset quality bands within Stage 2 compared to Stage 1, and again within Stage 3 compared to Stage 2.

Credit risk – Trading activities

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

Securities financing transactions and collateral (audited)

The table below shows securities funding transactions in NatWest Markets and Treasury. Balance sheet captions include balances held at all classifications under IFRS.

	Reverse Repos			Repos		
2022	Total £m	Of which can be offset £m	Outside netting arrangements £m	Total £m	Of which can be offset £m	Outside netting arrangements £m
Gross	**61,775**	**61,241**	**534**	**55,226**	**50,743**	**4,483**
IFRS offset	**(20,211)**	**(20,211)**	**—**	**(20,211)**	**(20,211)**	**—**
Carrying value	**41,564**	**41,030**	**534**	**35,015**	**30,532**	**4,483**
Master netting arrangements	**(2,445)**	**(2,445)**	**—**	**(2,445)**	**(2,445)**	**—**
Securities collateral	**(38,387)**	**(38,387)**	**—**	**(28,087)**	**(28,087)**	**—**
Potential for offset not recognised under IFRS	**(40,832)**	**(40,832)**	**—**	**(30,532)**	**(30,532)**	**—**
Net	**732**	**198**	**534**	**4,483**	**—**	**4,483**
2021						
Gross	78,909	78,259	650	73,858	72,712	1,146
IFRS offset	(32,016)	(32,016)	—	(32,016)	(32,016)	—
Carrying value	46,893	46,243	650	41,842	40,696	1,146
Master netting arrangements	(900)	(900)	—	(900)	(900)	—
Securities collateral	(45,271)	(45,271)	—	(39,794)	(39,794)	—
Potential for offset not recognised under IFRS	(46,171)	(46,171)	—	(40,694)	(40,694)	—
Net	722	72	650	1,148	2	1,146

Credit risk – Trading activities continued

Derivatives (audited)

The table below shows derivatives by type of contract. The master netting agreements and collateral shown do not result in a net presentation on the balance sheet under IFRS. A significant proportion of the derivatives relate to trading activities in NatWest Markets. The table also includes hedging derivatives in Treasury.

	2022							2021		
	Notional									
	GBP £bn	USD £bn	Euro £bn	Other £bn	Total £bn	Assets £m	Liabilities £m	Notional £bn	Assets £m	Liabilities £m
Gross exposure						118,275	116,158		114,100	109,403
IFRS offset						(18,730)	(22,111)		(7,961)	(8,568)
Carrying value	2,913	4,301	5,527	1,184	13,925	99,545	94,047	12,100	106,139	100,835
Of which:										
Interest rate (1)	2,602	2,895	4,967	278	10,742	53,480	48,535	8,919	67,458	61,206
Exchange rate	309	1,401	552	906	3,168	45,829	45,237	3,167	38,517	39,286
Credit	2	5	8	—	15	236	275	14	154	343
Equity and commodity	—	—	—	—	—	—	—	—	10	—
Carrying value					13,925	99,545	94,047	12,100	106,139	100,835
Counterparty mark-to-market netting						(77,365)	(77,365)		(85,006)	(85,006)
Cash collateral						(14,079)	(9,761)		(15,035)	(9,909)
Securities collateral						(4,571)	(1,185)		(2,428)	(2,913)
Net exposure						3,530	5,736		3,670	3,007
Banks (2)						648	711		393	413
Other financial institutions (3)						1,732	1,969		1,490	1,584
Corporate (4)						1,068	2,969		1,716	938
Government (5)						82	87		71	72
Net exposure						3,530	5,736		3,670	3,007
UK						1,271	2,878		1,990	1,122
Europe						1,196	2,015		714	1,028
US						753	626		645	653
RoW						310	217		321	204
Net exposure						3,530	5,736		3,670	3,007
Asset quality of uncollateralised derivative assets										
AQ1-AQ4						3,014			2,939	
AQ5-AQ8						500			674	
AQ9-AQ10						16			57	
Net exposure						3,530			3,670	

(1) The notional amount of interest rate derivatives includes £8,065 billion (2021 – £6,173 billion) in respect of contracts cleared through central clearing counterparties.
(2) Transactions with certain counterparties with whom NatWest Group has netting arrangements but collateral is not posted on a daily basis; certain transactions with specific terms that may not fall within netting and collateral arrangements; derivative positions in certain jurisdictions where the collateral agreements are not deemed to be legally enforceable.
(3) Includes transactions with securitisation vehicles and funds where collateral posting is contingent on NatWest Group's external rating.
(4) Mainly large corporates with whom NatWest Group may have netting arrangements in place, but operational capability does not support collateral posting.
(5) Sovereigns and supranational entities with no collateral arrangements, collateral arrangements that are not considered enforceable, or one-way collateral agreements in their favour.

Credit risk – Trading activities continued

Derivatives: settlement basis and central counterparties (audited)

The table below shows the third party derivative notional and fair value by trading and settlement method.

	Notional				Asset		Liability	
	Traded over the counter							
2022	Traded on recognised exchanges £bn	Settled by central counterparties £bn	Not settled by central counterparties £bn	Total £bn	Traded on recognised exchanges £m	Traded over the counter £m	Traded on recognised exchanges £m	Traded over the counter £m
Interest rate	707	8,065	1,970	10,742	113	53,367	33	48,502
Exchange rate	2	—	3,166	3,168	—	45,829	—	45,237
Credit	—	—	15	15	—	236	—	275
Equity and commodity	—	—	—	—	—	—	—	—
Total	709	8,065	5,151	13,925	113	99,432	33	94,014
2021								
Interest rate	723	6,173	2,023	8,919	—	67,458	—	61,206
Exchange rate	2	—	3,165	3,167	—	38,517	—	39,286
Credit	—	—	14	14	—	154	—	343
Equity and commodity	—	—	—	—	—	10	—	—
Total	725	6,173	5,202	12,100	—	106,139	—	100,835

Debt securities (audited)

The table below shows debt securities held at mandatory fair value through profit or loss by issuer as well as ratings based on the lowest of Standard & Poor's, Moody's and Fitch.

	Central and local government			Financial institutions	Corporate	Total
2022	UK £m	US £m	Other £m	£m	£m	£m
AAA	—	—	469	766	3	1,238
AA to AA+	—	2,345	1,042	1,114	21	4,522
A to AA-	2,205	—	372	77	29	2,683
BBB- to A-	—	—	916	149	296	1,361
Non-investment grade	—	—	—	65	49	114
Unrated	—	—	—	1	3	4
Total	2,205	2,345	2,799	2,172	401	9,922
Short positions	(2,313)	(1,293)	(3,936)	(1,875)	(107)	(9,524)
2021						
AAA	—	—	2,011	838	—	2,849
AA to AA+	—	3,329	3,145	1,401	62	7,937
A to AA-	6,919	—	1,950	308	57	9,234
BBB- to A-	—	—	3,792	346	517	4,655
Non-investment grade	—	—	31	163	82	276
Unrated	—	—	—	3	3	6
Total	6,919	3,329	10,929	3,059	721	24,957
Short positions	(9,790)	(56)	(12,907)	(2,074)	(137)	(24,964)

Credit risk – Cross border exposure

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

2022	Government £m	Banks £m	Other £m	Total £m	Short positions £m	Net of short positions £m
Western Europe	**5,608**	**7,385**	**19,018**	**32,011**	**4,438**	**27,573**
Of which: France	***1,875***	***1,911***	***3,958***	***7,744***	***1,414***	***6,330***
Germany	***794***	***3,717***	***839***	***5,350***	***1,053***	***4,297***
Italy	***1,094***	***116***	***729***	***1,939***	***1,126***	***813***
United States	**8,080**	**3,852**	**12,931**	**24,863**	**1,429**	**23,434**
2021						
Western Europe	17,206	6,968	17,177	41,351	13,603	27,748
Of which: France	*5,391*	*1,258*	*3,825*	*10,474*	*2,919*	*7,555*
Germany	*3,164*	*3,640*	*1,835*	*8,639*	*3,111*	*5,528*
Italy	*3,040*	*210*	*797*	*4,047*	*3,449*	*598*
United States	10,345	3,548	8,539	22,432	1,862	20,570

Capital, liquidity and funding risk

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

Definitions (audited)

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

Capital risk is the 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 its 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 provide cash 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; and
- Depositor and investor behaviour.

Sources of risk (audited)

Capital

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

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

Minimum requirement for own funds and eligible liabilities (MREL)

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

Liquidity

NatWest Group maintains a prudent approach to the definition of liquidity resources. NatWest Group manages its liquidity to ensure it is always available when and where required, taking into account regulatory, legal and other constraints. Following ring-fencing legislation, liquidity is no longer considered fungible across NatWest Group. Principal liquidity portfolios are maintained in the UK Domestic Liquidity Sub-Group (UK DoLSub) (primarily in NatWest Bank Plc), UBIDAC, NatWest Markets Plc, RBS International Limited and NWM N.V.. Some disclosures in this section where relevant are presented, on a consolidated basis, for NatWest Group, the UK DoLSub and on a solo basis for NatWest Markets Plc.

Liquidity resources are divided into primary and secondary liquidity as follows:

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

Funding

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

For further details on capital constituents and the regulatory framework covering capital, liquidity and funding requirements, please refer to the 2022 NatWest Group Pillar 3 Report.

Capital, liquidity and funding risk continued

Capital management

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

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

Capital planning is integrated into NatWest Group's wider annual budgeting process and is assessed and updated at least monthly. Regular returns are submitted to the PRA which include a two-year rolling forecast view. Other elements of capital management, including risk appetite and stress testing, are set out on pages 167 and 168.

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

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

Liquidity risk management

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

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

The UK DoLSub is PRA regulated and comprises NatWest Group's three licensed deposit-taking UK banks: National Westminster Bank Plc (NWB Plc), The Royal Bank of Scotland plc (RBS plc) and Coutts & Company. Ulster Bank Limited was removed from the UK DoLSub effective 1 January 2022 and its banking license was officially revoked following regulatory approval on 29 December 2022.

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

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

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

Funding risk management

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

Capital, liquidity and funding risk continued

Prudential regulation changes that may impact capital requirements

NatWest Group faces numerous changes in prudential regulation that may impact the minimum amount of capital it must hold and consequently may increase funding costs and reduce return on equity. Regulatory changes are actively monitored by NatWest Group, including engagement with industry associations and regulators and participation in quantitative impact studies. Monitoring the changing regulatory landscape forms a fundamental part of capital planning and management of its business. NatWest Group believes that its strategy to focus on simpler, lower risk activities within a more resilient recovery and resolution framework will enable it to manage the impact of these.

UK and EU implementation of Basel framework

The European Union (EU) implemented the initial phase of the Basel III capital framework through the CRR and the Capital Requirements Directive (CRD). 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 however the impact of those will be limited to NatWest Group's EU subsidiaries.

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

As detailed above, the changes to the EU CRR included the substantial CRR2 amendments and equivalent reforms were eventually implemented in UK on 1 January 2022.

On 30 November 2022, the PRA published its consultation paper CP16/22 setting out its proposed rules and expectations with respect to the Basel 3.1 standards that remain to be implemented in the UK. This will complete the implementation of post-global financial crisis prudential reforms, which were designed to i) increase the quantity of capital in the system, per unit of risk; ii) increase the quality of capital held by firms; and iii) improve the accuracy of risk-management firms, reducing the variability of risk-weighted assets (RWAs). The changes mainly impact capital requirements for STD (Standardised) and IRB (Internal Ratings Based) Credit Risk, Market Risk, CVA, Counterparty Credit Risk and Operational Risk. An aggregate "output floor" is also being introduced to ensure that total RWAs for firms using advanced or internally modelled methods and subject to the floor cannot fall below 72.5% of RWAs under the standardised approach. The proposal did not include further changes to the Leverage Ratio, Large Exposures and Liquidity Risk frameworks.

Implementation of the PRA proposals is scheduled to align with that of the European Union, with a projected compliance date of 1 January 2025. The PRA's consultation period will end on 31 March 2023. See summary table for further details on PRA's proposal.

Other developments

On 29 November 2022, the PRA published PS9/22 which contained amendments to PRA's approach to identifying other systemically important institutions (O-SIIs). The amendments mainly aimed at removing EBA's scoring methodology from the O-SII identification process and changing specific indicators and weights in PRA's scoring methodology. In its policy statement, the PRA clarified that O-SII designation does not automatically result in higher loss absorbency requirements in the form of an O-SII buffer or otherwise. An O-SII buffer can only apply to O-SIIs, or part of an O-SII that are ring-fenced bodies (RFBs).

On the same date, the PRA also published its 2022 list of firms designated as O-SIIs. NatWest Group is part of PRA's O-SII list. Simultaneously, the PRA published a statement confirming a freeze of firms' O-SII buffer rates in 2022. O-SII buffers will be maintained at 2019 levels and the PRA will assess rates in 2023 based on its revised methodology. The decision on O-SII buffer rates taken in December 2023 will be based on end-2022 financial results and will take effect from January 2025 in line with PRA's policy. This PRA statement is therefore relevant to NatWest Holdings Limited which is currently subject an O-SII buffer.

Capital, liquidity and funding risk continued

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

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

Area of development	Key changes	Source of changes/implementation date
Leverage ratio framework	– Binding leverage ratio at individual bank level for material entities i.e. LREQ firms.	– SS45/15 – UK Leverage ratio framework – Implementation: 1 January 2023
Capital – Output floor	– Level of application: Applies at highest level of application: Consolidated level for UK Groups; sub-consolidated level for Ring Fenced sub-groups. – Capital stack: Applies to full capital stack including capital buffers. – Transitional period for the application; starting with 50% at 1 January 2025 through to 72.5% at 1 January 2030.	– PRA Basel 3.1 CP16/22 – Expected implementation: 1 January 2025
Credit Risk (STD, IRB, FIRB)	– Significant revisions to standardised credit risk, including to unrated corporates, SMEs, specialised lending, mortgages & equity exposures. – Changes to IRB; restrictions on IRB modelling (switch to standardised on central governments, switch to FIRB on financial institutions and large corporates), inclusion of input floors and other modelling changes. – Removal of SME & Infrastructure supporting factors (IRB & standardised). – Amendments to credit risk mitigation, including the withdrawal of some internal modelling approaches, the removal of double default and a new risk weight substitution approach on some exposures.	– PRA Basel 3.1 CP16/22 – Expected implementation: 1 January 2025
Market Risk	– Implementation of FRTB - new standardised & modelled approaches (Expected Shortfall replaces VaR), revised banking/trading book boundary. – Model approval applications to be provided by 1 January 2024. This includes permissions for standardised MR & CVA.	– PRA Basel 3.1 CP16/22 – Expected implementation: 1 January 2025
CVA & Counterparty Credit Risk	– Removal of modelled approach. – New standardised approach, aligned to Basel framework, including the removal of CVA exemptions on sovereigns, non-financial counterparties and pension funds. – Reduced SA-CCR alpha factor from 1.4 to 1 for non-financial counterparties and pension funds.	– PRA Basel 3.1 CP16/22 – Expected implementation: 1 January 2025
Operational Risk	– Internal loss multiplier (ILM) set to 1. – Changes to the income requirements in scope of the business indicator.	– PRA Basel 3.1 CP16/22 – Expected implementation: 1 January 2025
Pillar 2	– PRA commitment to review Pillar 2A methodologies in 2024, to adjust requirements ahead of implementation of the Pillar 1.	– PRA Basel 3.1 CP16/22 – Expected implementation: 1 January 2025

Capital, liquidity and funding risk continued

Key points

CET1 ratio



The CET1 ratio decreased 400 basis points over the period, due to a £3.6 billion decrease in CET1 and a £19.1 billion increase in RWAs (movement in RWA explained below).

The CET1 decrease of £3.6 billion is mainly driven by:

- the directed buy back of £1.2 billion;
- interim and special dividends of £2.1 billion;
- foreseeable charge for the on-market buyback programme of £0.8 billion;
- foreseeable final ordinary dividend of £1.0 billion and adjustment for pension trusts of £0.4 billion;
- the removal of the adjustment for prudential amortisation on software development costs of £0.4 billion;
- a £0.3 billion decrease in the IFRS 9 transitional adjustment.

These reductions were offset by the £3.3 billion attributable profit in the period.

MREL (LAC)



Loss absorbing capital decreased by £6.9 billion to £55.5 billion primarily due to a £3.6 billion decrease in CET1 (explained above), a £0.6 billion decrease in AT1 capital, a £0.7 billion decrease in Tier 2 capital and a £2.1 billion decrease in MREL eligible instruments. There has been a £0.5 billion decrease in ineligible subordinated debt instruments primarily driven by redemptions in the period, and a £1.6 billion decrease in senior unsecured debt driven by new issuances offset by redemptions, instruments now classified as ineligible and FX movements.

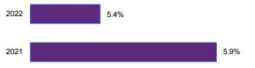
RWA



Total RWAs increased by £19.1 billion to £176.1 billion mainly reflecting:

- An increase in credit risk RWAs of £21.8 billion, primarily due to model adjustments applied as a result of new regulation applicable to IRB models from 1 January 2022, in addition to drawdowns and new facilities within Commercial & Institutional. This was partially offset by a reduction in the Ulster RoI portfolio and improved risk metrics within Commercial & Institutional and Retail Banking.
- A reduction in operational risk RWAs of £1.9 billion following the annual recalculation.
- A reduction in counterparty credit risk RWAs of £1.2 billion, mainly driven by external factors faced in the final quarter of the period including excess margin received and increases in the Mark-to-Market uncollateralised counterparties. This was partially offset by the implementation of SA-CCR, affecting the RWA calculation for the non-internally modelled exposure.

UK leverage



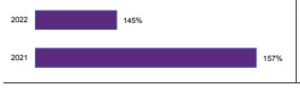
The leverage ratio at 31 December 2022 is 5.4% and has been calculated in accordance with changes to the UK's leverage ratio framework. As at 31 December 2021, the UK leverage ratio was 5.9%, which was calculated under the prior year's UK leverage methodology. The key driver of the decrease is a £4.2 billion decrease in Tier 1 capital.

Liquidity portfolio



The liquidity portfolio decreased by £60.9 billion to £225.5 billion, with primary liquidity decreasing by £47.0 billion to £161.6 billion. The decrease in primary liquidity is driven by increase in lending, decrease in deposits, shareholder distributions (share buyback and dividends), redemption of senior debt and maturing commercial paper and certificates of deposit. The reduction in secondary liquidity is due to a reduction in the pre-positioned collateral at the Bank of England.

Key points continued

Liquidity coverage ratio 	The Liquidity Coverage Ratio (LCR) decreased to 145% during the year driven by a decrease in the liquidity portfolio and a lower than proportionate reduction in net outflows. The decrease in liquidity portfolio was primarily driven by growth in customer lending and reduced customer deposits in NatWest Holdings along with shareholder distributions during the year.
NSFR 	The net stable funding ratio (NSFR) was 145% compared to 157% in prior year. The decrease is due to lower deposits and shareholder distributions combined with higher lending.

Capital, liquidity and funding risk continued

Minimum requirements

Maximum Distributable Amount (MDA) and Minimum Capital Requirements

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

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

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

Type	CET1	Total Tier 1	Total capital
Pillar 1 requirements	4.5%	6.0%	8.0%
Pillar 2A requirements	1.7%	2.3%	3.0%
Minimum Capital Requirements	6.2%	8.3%	11.0%
Capital conservation buffer	2.5%	2.5%	2.5%
Countercyclical capital buffer (1)	0.8%	0.8%	0.8%
MDA threshold (2)	9.5%	n/a	n/a
Overall capital requirement	9.5%	11.6%	14.3%
Capital ratios at 31 December 2022	14.2%	16.4%	19.3%
Headroom (3)	4.7%	4.8%	5.0%

(1) The Financial Policy Committee increased UK CCyB rate from 0% to 1% effective from 13 December 2022. A further increase from 1% to 2% is anticipated from 5 July 2023
(2) In June 2022, the Central Bank of Ireland announced that the CCyB on Irish exposures will increase from 0% to 0.5%, applicable from 15 June 2023. This is the first step towards a gradual increase which, conditional on macro-financial developments, would see a CCyB of 1.5% announced by mid-2023, which is expected to be applicable from June 2024.
(3) Pillar 2A requirements for NatWest Group are set as a variable amount with the exception of some fixed add-ons.
(4) The headroom does not reflect excess distributable capital and may vary over time.

Leverage ratios

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

Type	CET1	Total Tier 1
Minimum ratio	2.44%	3.25%
Countercyclical leverage ratio buffer (1)	0.3%	0.3%
Total	2.74%	3.55%

(1) The countercyclical leverage ratio buffer is set at 35% of NatWest Group's CCyB. As noted above the UK CCyB is anticipated to increase from 1% to 2% from 5 July 2023. Foreign exposures may be subject to different CCyB rates depending on the rate set in those jurisdictions.
(2) Certain NatWest Group legal entities that are not currently in scope of the minimum leverage ratio capital requirements are expected to manage their leverage ratio at the same level as firms in scope and will be subject to the minimum requirement from 1 January 2023.

Liquidity and funding ratios

The table below summarises the minimum requirements for key liquidity and funding metrics under the PRA framework. The binding requirement for NSFR became effective as of 1 January 2022.

Type	
Liquidity coverage ratio (LCR)	100%
Net stable funding ratio (NSFR)	100%

Capital, liquidity and funding risk continued

Measurement

Capital, risk-weighted assets and leverage: Key metrics

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

	2022	2021
Capital adequacy ratios (1)	%	%
CET1	14.2	18.2
Tier 1	16.4	21.0
Total	19.3	24.7
RWAs	£m	£m
Credit risk	141,963	120,116
Counterparty credit risk	6,723	7,907
Market risk	8,300	7,917
Operational risk	19,115	21,031
Total RWAs	176,101	156,971
Capital	£m	£m
CET1	24,992	28,596
Tier1	28,867	33,042
Total	33,920	38,748
Leverage ratios	£m	£m
Tier 1 capital	28,867	33,042
UK average Tier 1 capital (2)	29,564	33,804
UK average leverage exposure (2)	531,429	568,802
UK average leverage ratio (%) (2)	5.6%	5.9%
UK leverage ratio (%) (3)	5.4%	5.9%

(1) Based on the current PRA rules, therefore includes the transitional relief on grandfathered capital instruments and the transitional arrangements for the capital impact of IFRS 9 expected credit loss (ECL) accounting. The impact of the IFRS 9 transitional adjustments at 31 December 2022 was £0.4 billion for CET1 capital, £36 million for total capital and £71 million RWAs (31 December 2021 – £0.6 billion CET1 capital, £0.5 billion total capital and £36 million RWAs). Excluding these adjustments, the CET1 ratio would be 14.0% (31 December 2021 – 17.8%). The transitional relief on grandfathered instruments at 31 December 2022 was £75 million (31 December 2021 - £0.9 billion). Excluding both the transitional relief on grandfathered capital instruments and the transitional arrangements for the capital impact of IFRS 9 expected credit loss (ECL) accounting, the end-point Tier 1 capital ratio would be 16.2% (31 December 2021 – 20.3%) and the end-point Total capital ratio would be 19.2% (31 December 2021 – 23.8%).

(2) Based on the daily average of on-balance sheet items and three month-end average of off-balance sheet items.

(3) The UK leverage exposure and transitional Tier 1 capital are calculated in accordance with current PRA rules. Excluding the IFRS 9 transitional adjustment, the UK leverage ratio would be 5.3% (31 December 2021 – 5.8%).

Capital, liquidity and funding risk continued

Capital flow statement

The table below analyses the movement in CET1, AT1 and Tier 2 capital for the year ended 31 December 2022. It is being presented on a transitional basis based on current PRA rules.

	CET1 £m	AT1 £m	Tier 2 £m	Total £m
At 31 December 2021	**28,596**	**4,446**	**5,706**	**38,748**
Attributable profit for the period	**3,340**	**—**	**—**	**3,340**
Ordinary interim dividend paid	**(364)**	**—**	**—**	**(364)**
Special dividend paid	**(1,746)**	**—**	**—**	**(1,746)**
Directed buyback	**(1,212)**	**—**	**—**	**(1,212)**
Foreseeable ordinary dividends	**(967)**	**—**	**—**	**(967)**
Adjustment for trust assets (1)	**(365)**	**—**	**—**	**(365)**
Foreseeable charges - on-market share buyback	**(800)**	**—**	**—**	**(800)**
Foreign exchange reserve	**273**	**—**	**—**	**273**
FVOCI reserve	**(371)**	**—**	**—**	**(371)**
Own credit	**(79)**	**—**	**—**	**(79)**
Share capital and reserve movements in respect of employee share schemes	**113**	**—**	**—**	**113**
Goodwill and intangibles deduction	**(804)**	**—**	**—**	**(804)**
Deferred tax assets	**(151)**	**—**	**—**	**(151)**
Prudential valuation adjustments	**(1)**	**—**	**—**	**(1)**
End of 2021 transitional relief on grandfathered instruments	**—**	**(571)**	**(232)**	**(803)**
Net dated subordinated debt instruments	**—**	**—**	**(522)**	**(522)**
Foreign exchange movements	**(254)**	**—**	**540**	**286**
Adjustment under IFRS 9 transitional arrangements	**(260)**	**—**	**—**	**(260)**
Other movements	**44**	**—**	**(439)**	**(395)**
At 31 December 2022	**24,992**	**3,875**	**5,053**	**33,920**

(1) Prudent deduction in respect of agreement with the pension fund to establish new legal structure. See Notes 5 and 33.

- The CET1 decrease of c.£3.6 billion is mainly driven by the directed buyback of £1.2 billion, interim and special dividends paid £2.1 billion, foreseeable charge for additional on-market ordinary share buyback programme of £0.8 billion, foreseeable final ordinary dividend of £1.0 billion and adjustment for pension trusts of £0.4 billion, the removal of the adjustment for prudential amortisation on software development costs of £0.4 billion and a £0.3 billion decrease in the IFRS 9 transitional adjustment. These reductions were offset by the £3.3 billion attributable profit in the period.
- The AT1 and Tier 2 movements are due to the end of the 2021 transitional relief on grandfathered instruments, impact of liability management exercise in August offset by a £0.7 billion issuance of subordinated Tier 2 notes in November 2022 and FX movements.
- In Tier 2 there was also a £0.4 billion decrease in the Tier 2 surplus provisions.

Capital, liquidity and funding risk continued

Risk-weighted assets

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

	Credit risk £bn	Counterparty credit risk £bn	Market risk £bn	Operational risk £bn	Total £bn
At 31 December 2021	120.2	7.9	7.9	21.0	157.0
Foreign exchange movement	1.5	—	—	—	1.5
Business movements	6.3	(1.5)	0.2	(1.9)	3.1
Risk parameter changes	(4.0)	—	—	—	(4.0)
Methodology changes	0.1	0.4	—	—	0.5
Model updates	21.3	(0.1)	0.2	—	21.4
Acquisitions and disposals	(3.4)	—	—	—	(3.4)
At 31 December 2022	142.0	6.7	8.3	19.1	176.1

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

Total RWAs	Retail Banking £bn	Private Banking £bn	Commercial & Institutional £bn	Central items & other (1) £bn	Total NatWest Group £bn
At 31 December 2021	36.7	11.3	98.1	10.9	157.0
Foreign exchange movement	—	—	1.3	0.2	1.5
Business movements	2.9	(0.1)	2.0	(1.7)	3.1
Risk parameter changes	(1.2)	—	(2.8)	—	(4.0)
Methodology changes	—	—	0.5	—	0.5
Model updates	16.3	—	4.1	1.0	21.4
Acquisitions and disposals	—	—	—	(3.4)	(3.4)
At 31 December 2022	54.7	11.2	103.2	7.0	176.1
Credit risk	47.7	10.0	78.3	6.0	142.0
Counterparty credit risk	0.1	—	6.6	—	6.7
Market risk	0.2	—	8.1	—	8.3
Operational risk	6.7	1.2	10.2	1.0	19.1
Total RWAs	54.7	11.2	103.2	7.0	176.1

(1) £5.4 billion of Central items & other relates to Ulster RoI.

Total RWAs increased by £19.1 billion during the period mainly reflecting;

- An increase in model updates totalling £21.4 billion, primarily due to model adjustments applied as a result of new regulation applicable to IRB models from 1 January 2022 within Retail Banking and Commercial & Institutional.
- An increase in business movements totalling £3.1 billion, driven by increased credit risk exposures within Retail Banking and Commercial & Institutional. This was partially offset by a reduction in credit risk exposures within Ulster Bank RoI.
- A reduction in risk parameters totalling £4.0 billion, reflecting improved risk metrics within Commercial & Institutional and Retail Banking.
- An increase in disposals leading to a £3.4 billion reduction in RWAs relating to the phased withdrawal from the Republic of Ireland.

Capital, liquidity and funding risk continued

Leverage exposure

	31 December 2022 £m	31 December 2021 £m
Cash and balances at central banks	144,832	177,757
Trading assets	45,577	59,158
Derivatives	99,545	106,139
Financial assets	404,374	412,817
Other assets	18,864	17,106
Assets of disposal groups	6,861	9,015
Total assets	720,053	781,992
Derivatives		
- netting and variation margin	(100,356)	(110,204)
- potential future exposures	18,327	35,035
Securities financing transactions gross up	4,147	1,397
Other off balance sheet items	46,144	44,240
Regulatory deductions and other adjustments	(7,114)	(8,980)
Claims on central banks	(141,144)	(174,148)
Exclusion of bounce back loans	(5,444)	(7,474)
UK leverage exposure	534,613	561,858
UK leverage ratio (%) (1)	5.4	5.9

(1) The UK leverage exposure and transitional Tier 1 capital are calculated in accordance with the PRA Rulebook. Excluding the IFRS 9 transitional adjustment, the UK leverage ratio would be 5.3% (31 December 2021 – 5.8%).

Liquidity key metrics

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

	2022		2021	
	NatWest Group	UK DoLSub	NatWest Group	UK DoLSub
Liquidity coverage ratio	145%	131%	172%	169%
Stressed outflow coverage (1)	150%	131%	194%	195%
Net stable funding ratio	145%	137%	157%	151%

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

Weighted undrawn commitments

The table below provides a breakdown of weighted undrawn commitments.

	2022 £bn	2021 £bn
Unconditionally cancellable credit cards	1.9	1.8
Other unconditionally cancellable items	3.6	3.1
Unconditionally cancellable items (1)	5.5	4.9
Undrawn commitments <1 year which may not be cancelled	1.7	1.7
Other off-balance sheet items with 20% credit conversion factor (CCF)	0.3	0.3
Items with a 20% CCF	2.0	2.0
Revolving credit risk facilities	28.4	27.5
Term loans	4.4	3.3
Mortgages	—	—
Other undrawn commitments >1 year which may not be cancelled & off-balance sheet	1.0	1.1
Items with a 50% CCF	33.8	31.9
Items with a 100% CCF	4.9	5.3
Total	46.2	44.1

(1) Based on a 10% CCF.

Capital, liquidity and funding risk continued

Loss-absorbing capital

The following table illustrates the components of estimated loss-absorbing capital (LAC) in NatWest Group plc and operating subsidiaries and includes external issuances only. The table is prepared on a transitional basis, including the benefit of regulatory capital instruments issued from operating companies, to the extent they meet MREL criteria.

The roll-off profile relating to senior debt and subordinated debt instruments is set out on page 243.

	2022				2021			
	Par value (1) £bn	Balance sheet value £bn	Regulatory value (2,5) £bn	LAC value (3) £bn	Par value £bn	Balance sheet value £bn	Regulatory value £bn	LAC value £bn
CET1 capital (4)	**25.0**	**25.0**	**25.0**	**25.0**	28.6	28.6	28.6	28.6
Tier 1 capital: end-point CRR compliant AT1								
of which: NatWest Group plc (holdco)	**3.9**	**3.9**	**3.9**	**3.9**	3.9	3.9	3.9	3.9
of which: NatWest Group plc operating subsidiaries (opcos)	**—**	**—**	**—**	**—**	—	—	—	—
	3.9	**3.9**	**3.9**	**3.9**	3.9	3.9	3.9	3.9
Tier 1 capital: end-point CRR non compliant (6)								
of which: holdco	**—**	**—**	**—**	**—**	0.6	0.6	0.5	0.5
of which: opcos	**0.1**	**0.1**	**—**	**—**	0.1	0.1	—	—
	0.1	**0.1**	**—**	**—**	0.7	0.7	0.5	0.5
Tier 2 capital: end-point CRR compliant								
of which: holdco	**6.0**	**5.5**	**4.9**	**5.4**	7.1	7.1	4.9	6.0
of which: opcos	**0.1**	**0.1**	**—**	**—**	0.3	0.3	—	—
	6.1	**5.6**	**4.9**	**5.4**	7.4	7.4	4.9	6.0
Tier 2 capital: end-point CRR non compliant (6)								
of which: holdco	**—**	**—**	**—**	**—**	—	—	—	—
of which: opcos	**0.3**	**0.5**	**0.1**	**—**	0.6	0.9	0.3	0.1
	0.3	**0.5**	**0.1**	**—**	0.6	0.9	0.3	0.1
Senior unsecured debt securities								
of which: holdco	**23.4**	**22.3**	**—**	**21.2**	22.8	23.4	—	22.8
of which: opcos	**26.1**	**22.9**	**—**	**—**	22.7	22.6	—	—
	49.5	**45.2**	**—**	**21.2**	45.5	46.0	—	22.8
Tier 2 capital								
Other regulatory adjustments	**—**	**—**	**—**	**—**	—	—	0.5	0.5
	—	**—**	**—**	**—**	—	—	0.5	0.5
Total	**84.9**	**80.3**	**33.9**	**55.5**	86.7	87.5	38.7	62.4
RWAs				**176.1**				157.0
UK leverage exposure				**534.6**				561.9
LAC as a ratio of RWAs				**31.5%**				39.8%
LAC as a ratio of UK leverage exposure				**10.4%**				11.1%

(1) Par value reflects the nominal value of securities issued.
(2) Regulatory capital instruments issued from operating companies are included in the transitional LAC calculation, to the extent they meet the current MREL criteria.
(3) LAC value reflects NatWest Group's interpretation of the Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL), published in December 2021 (updating June 2018). MREL policy and requirements remain subject to further potential development, as such NatWest Group's estimated position remains subject to potential change. Liabilities excluded from LAC include instruments with less than one year remaining to maturity, structured debt, operating company senior debt, and other instruments that do not meet the MREL criteria. The LAC calculation includes Tier 1 and Tier 2 securities before the application of any regulatory caps or adjustments.
(4) Corresponding shareholders' equity was £36.5 billion (2021 - £41.8 billion).
(5) Regulatory amounts reported for AT1, Tier 1 and Tier 2 includes grandfathered instruments as per the transitional provisions allowed under CRR2 (until 28 June 2025).
(6) (i) CRR1 non-compliant instruments (2021) - all Tier 1 and Tier 2 instruments that were grandfathered under CRR1 compliance have lost their regulatory value and no longer form part of our regulatory capital resources from 1 January 2022. As at 31 December 2021, these are reported under the "Tier 1 capital: end-point CRR non-compliant" and "Tier 2 capital: end-point CRR non-compliant" categories.
(ii) CRR2 non-compliant instruments (2022) - From January 2022, all Tier 1 and Tier 2 instruments that were grandfathered under CRR2 compliance (until 28 June 2025) are reported under "Tier 1 capital: end-point CRR non-compliant" and "Tier 2 capital: end-point CRR non-compliant" category.

Capital, liquidity and funding risk continued

Loss-absorbing capital

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

		NatWest Group plc £bn	NatWest Holdings Limited £bn	NWB Plc £bn	RBS plc £bn	UBIDAC £bn	NWM Plc £bn	NatWest Markets N.V. £bn	NWM Securities Inc. £bn	RBS International Limited £bn
Tier 1 (inclusive of AT1)	Externally issued	3.9	—	0.1	—	—	—	—	—	—
Tier 1 (inclusive of AT1)	Internally issued	—	3.7	2.5	1.0	—	0.9	0.2	—	0.3
		3.9	3.7	2.6	1.0	—	0.9	0.2	—	0.3
Tier 2	Externally issued	5.5	—	0.1	—	0.1	0.1	0.3	—	—
Tier 2	Internally issued	—	4.6	2.9	1.5	—	1.5	0.1	0.3	—
		5.5	4.6	3.0	1.5	0.1	1.6	0.4	0.3	—
Senior unsecured	Externally issued	22.3	—	—	—	—	—	—	—	—
Senior unsecured	Internally issued	—	10.4	6.4	0.4	0.5	3.2	—	—	0.3
		22.3	10.4	6.4	0.4	0.5	3.2	—	—	0.3
Total outstanding issuance		31.7	18.7	12.0	2.9	0.6	5.7	0.6	0.3	0.6

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

Capital, liquidity and funding risk continued

Roll-off profile

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

Senior debt roll-off profile (1)	As at and for year ended 31 December 2022	Roll-off profile H1 2023	H2 2023	2024	2025	2026 & 2027	2028 & later
NatWest Group plc							
- amount (£m)	22,266	1,350	874	2,142	2,904	6,049	8,947
- weighted average rate spread (bps)	190	309	266	164	176	195	174
NWM Plc							
- amount (£m)	18,283	3,380	887	3,664	5,213	4,380	759
- weighted average rate spread (bps)	60	62	42	67	64	36	111
NatWest Bank Plc							
- amount (£m)	1,664	1,641	23	—	—	—	—
- weighted average rate spread (bps)	17	17	(6)	—	—	—	—
NWM N.V.							
- amount (£m)	1,884	682	556	532	66	—	48
- weighted average rate spread (bps)	(104)	(175)	(141)	3	(49)	—	95
NWM S.I.							
- amount (£m)	216	—	—	83	—	74	59
- weighted average rate spread (bps)	131	—	—	98	—	138	168
RBSI							
- amount (£m)	839	645	194	—	—	—	—
- weighted average rate spread (bps)	44	40	58	—	—	—	—
Securitisation							
- amount (£m)	859	—	—	—	296	375	188
- weighted average rate spread (bps)	3	—	—	—	8	—	—
Covered bonds							
- amount (£m)	2,842	751	—	2,091	—	—	—
- weighted average rate spread (bps)	127	44	—	157	—	—	—
Total notes issued - amount (£m)	48,853	8,449	2,534	8,512	8,479	10,878	10,001
Weighted average rate spread (bps)	113	70	78	105	96	122	164
Subordinated debt instruments roll-off profile (2)							
NatWest Group plc (£m)	5,521	126	537	1,298	918	875	1,767
NWM Plc (£m)	142	122	—	—	—	18	2
NatWest Bank Plc (£m)	72	72	—	—	—	—	—
NWM N.V. (£m)	323	83	—	—	—	—	240
UBIDAC (£m)	76	—	—	—	—	—	76
Total (£m)	6,134	403	537	1,298	918	893	2,085

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

Capital, liquidity and funding risk continued

Liquidity portfolio (audited)

The table below shows the liquidity portfolio by product, with primary liquidity aligned to internal stressed outflow coverage and regulatory LCR categorisation. Secondary liquidity comprises assets eligible for discount at central banks, which do not form part of the liquid asset portfolio for LCR or stressed outflow purposes.

	Liquidity value					
	2022			2021		
	NatWest Group (1) £m	NWH Group (2) £m	UK DoL Sub £m	NatWest Group £m	NWH Group £m	UK DoL Sub £m
Cash and balances at central banks (3)	**140,820**	**106,869**	**103,708**	174,328	140,562	136,154
AAA to AA- rated governments	**18,589**	**9,843**	**9,843**	31,073	21,710	21,123
A+ and lower rated governments	**317**	**—**	**—**	25	—	—
Government guaranteed issuers, public sector entities and government sponsored entities	**134**	**120**	**100**	307	295	174
International organisations and multilateral development banks	**1,734**	**1,112**	**1,021**	2,720	1,807	1,466
LCR level 1 bonds	**20,774**	**11,075**	**10,964**	34,125	23,812	22,763
LCR level 1 assets	**161,594**	**117,944**	**114,672**	208,453	164,374	158,917
LCR level 2 assets	**—**	**—**	**—**	117	—	—
Non-LCR eligible assets	**—**	**—**	**—**	—	—	—
Primary liquidity	**161,594**	**117,944**	**114,672**	208,570	164,374	158,917
Secondary liquidity (3)	**63,917**	**63,849**	**63,849**	77,849	77,660	76,573
Total liquidity value	**225,511**	**181,793**	**178,521**	286,419	242,034	235,490

(1) NatWest Group includes the UK Domestic Liquidity Sub-Group (UK DoLSub), NatWest Markets Plc and other significant operating subsidiaries that hold liquidity portfolios. These include The Royal Bank of Scotland International Limited, NWM N.V., Ulster Bank Ireland DAC and NatWest Bank Europe GmbH who hold managed portfolios that comply with local regulations that may differ from PRA rules.
(2) NWH Group comprises UK DoLSub, Ulster Bank Ireland DAC and NatWest Bank Europe GmbH who hold managed portfolios that comply with local regulations that may differ from PRA rules.
(3) Comprises assets eligible for discounting at the Bank of England and other central banks.
(4) NatWest Markets Plc liquidity portfolio is reported in the NatWest Markets Plc Annual Report and Accounts.

Capital, liquidity and funding risk continued

Funding sources (audited)

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

	2022			2021		
	Short-term less than 1 year £m	Long-term more than 1 year £m	Total £m	Short-term less than 1 year £m	Long-term more than 1 year £m	Total £m
Bank Deposits						
Repos	1,446	—	1,446	7,912	—	7,912
Other bank deposits (1)	6,353	12,642	18,995	5,803	12,564	18,367
	7,799	12,642	20,441	13,715	12,564	26,279
Customer Deposits						
Repos	9,575	254	9,829	14,541	—	14,541
Non-bank financial institutions	50,226	9	50,235	57,885	67	57,952
Personal	224,706	1,209	225,915	230,525	829	231,354
Corporate	164,314	25	164,339	175,850	113	175,963
	448,821	1,497	450,318	478,801	1,009	479,810
Trading liabilities (2)						
Repos (3)	23,740	—	23,740	19,389	—	19,389
Derivatives collateral	17,680	—	17,680	17,718	—	17,718
Other bank and customer deposits	413	654	1,067	849	704	1,553
Debt securities in issue - Medium term notes	54	743	797	178	796	974
	41,887	1,397	43,284	38,134	1,500	39,634
Other financial liabilities						
Customer deposits	253	797	1,050	568	—	568
Debt securities in issue:						
Commercial paper and certificates of deposit	5,587	85	5,672	9,038	115	9,153
Medium term notes	6,934	31,750	38,684	6,401	29,451	35,852
Covered bonds	804	2,038	2,842	53	2,833	2,886
Securitisation (5)	—	859	859	—	867	867
	13,578	35,529	49,107	16,060	33,266	49,326
Subordinated liabilities	974	5,286	6,260	1,375	7,054	8,429
Total funding	513,059	56,351	569,410	548,085	55,393	603,478
Of which: available in resolution (4)			*24,899*			*29,624*

(1) Includes £12.0 billion (2021 – £12.0 billion) relating to Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises participation.
(2) Excludes short positions of £9.5 billion (2021 – £25.0 billion).
(3) Comprises central & other bank repos of £1.6 billion (2021 – £0.8 billion), other financial institution repos of £19.4 billion (2021 – £17.0 billion) and other corporate repos of £2.7 billion (2021 – £1.6 billion).
(4) Eligible liabilities (as defined in the Banking Act 2009 as amended from time to time) that meet the eligibility criteria set out in the regulations, rules, policies, guidelines, or statements of the Bank of England including the Statement of Policy published by the Bank of England in December 2021 (updating June 2018). The balance consists of £20.0 billion (2021 – £23.4 billion) under debt securities in issue (senior MREL) and £4.9 billion (2021 – £6.2 billion) under subordinated liabilities.
(5) NatWest Group transfers credit risk on originated loans and mortgages without the transfer of assets to a structured entity, whereby it enters credit derivative and financial guarantee contracts with consolidated structured entities and they in turn issue debt securities to investors. This funding is legally ringfenced in the structured entity and is restricted to specifically cover investor credit protection claim payments in respect of the associated loans and mortgages.

Capital, liquidity and funding risk continued

Contractual maturity (audited)

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

	Banking activities										
2022	Less than 1 month £m	1-3 months £m	3-6 months £m	6 months -1 year £m	Subtotal £m	1-3 years £m	3-5 years £m	More than 5 years £m	Total £m	Trading activities £m	Total £m
Cash and balances at central banks	144,832	—	—	—	144,832	—	—	—	144,832	—	144,832
Trading assets	—	—	—	—	—	—	—	—	—	45,577	45,577
Derivatives	—	5	10	—	15	69	55	4	143	99,402	99,545
Settlement balances	2,572	—	—	—	2,572	—	—	—	2,572	—	2,572
Loans to banks - amortised cost	5,020	3	1,646	—	6,669	17	250	203	7,139	—	7,139
Loans to customers - amortised cost (1)	34,417	17,111	13,655	22,366	87,549	60,959	42,484	178,671	369,663	—	369,663
Personal	4,533	2,348	3,247	6,397	16,525	23,596	21,809	154,938	216,868	—	216,868
Corporate	20,366	4,997	4,422	9,108	38,893	29,570	18,231	22,342	109,036	—	109,036
Non-bank financial institutions	9,518	9,766	5,986	6,861	32,131	7,793	2,444	1,391	43,759	—	43,759
Other financial assets	736	1,140	1,150	2,857	5,883	7,634	7,661	8,930	30,108	787	30,895
Total financial assets	187,577	18,259	16,461	25,223	247,520	68,679	50,450	187,808	554,457	145,766	700,223
2021											
Total financial assets	233,541	25,004	19,710	27,696	305,951	63,048	44,041	183,092	596,132	165,570	761,702
2022											
Bank deposits excluding repos	5,050	177	522	604	6,353	4,442	8,200	—	18,995	—	18,995
Bank repos	961	485	—	—	1,446	—	—	—	1,446	—	1,446
Customer repos	9,559	6	10	—	9,575	254	—	—	9,829	—	9,829
Customer deposits excluding repos	414,135	13,749	6,868	4,494	439,246	1,223	—	20	440,489	—	440,489
Personal	216,530	3,019	2,984	2,173	224,706	1,209	—	—	225,915	—	225,915
Corporate	151,945	7,184	3,221	1,964	164,314	5	—	20	164,339	—	164,339
Non-bank financial institutions	45,660	3,546	663	357	50,226	9	—	—	50,235	—	50,235
Settlement balances	2,012	—	—	—	2,012	—	—	—	2,012	—	2,012
Trading liabilities	—	—	—	—	—	—	—	—	—	52,808	52,808
Derivatives	10	10	17	31	68	63	—	1	132	93,915	94,047
Other financial liabilities	1,220	4,789	4,941	2,628	13,578	17,789	10,944	6,796	49,107	—	49,107
CPs and CDs	1,134	2,246	858	1,349	5,587	73	12	—	5,672	—	5,672
Medium term notes	36	1,623	4,079	1,196	6,934	15,161	9,989	6,600	38,684	—	38,684
Covered bonds	50	750	4	—	804	2,038	—	—	2,842	—	2,842
Securitisations	—	—	—	—	—	296	375	188	859	—	859
Customer deposits DFV	—	170	—	83	253	221	568	8	1,050	—	1,050
Subordinated liabilities	73	14	228	659	974	2,194	1,458	1,634	6,260	—	6,260
Notes in circulation	3,218	—	—	—	3,218	—	—	—	3,218	—	3,218
Lease liabilities	13	23	34	67	137	229	180	572	1,118	—	1,118
Total financial liabilities	436,251	19,253	12,620	8,483	476,607	26,194	20,782	9,023	532,606	146,723	679,329
2021											
Total financial liabilities	467,268	31,702	8,850	7,497	515,317	20,799	23,746	10,480	570,342	165,313	735,655

(1) Loans to customers excludes £3.3 billion (2021 – £3.7 billion) of impairment provisions.

Capital, liquidity and funding risk continued

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

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

	Trading liabilities	Other financial liabilities						
		Debt securities in issue						
2022	Debt securities in issue MTNs £m	Commercial paper and CDs £m	MTNs £m	Covered bonds £m	Securitisation £m	Subordinated liabilities £m	Total £m	Total notes in issue £m
Less than 1 year	54	5,587	6,934	804	—	974	14,299	14,353
1-3 years	475	73	15,161	2,038	296	2,195	19,763	20,238
3-5 years	35	12	9,989	—	375	1,458	11,834	11,869
More than 5 years	233	—	6,600	—	188	1,633	8,421	8,654
Total	797	5,672	38,684	2,842	859	6,260	54,317	55,114
2021								
Less than 1 year	178	9,038	6,401	53	—	1,375	16,867	17,045
1-3 years	335	105	12,902	2,833	—	3,165	19,005	19,340
3-5 years	112	10	9,234	—	289	1,959	11,492	11,604
More than 5 years	349	—	7,315	—	578	1,930	9,823	10,172
Total	974	9,153	35,852	2,886	867	8,429	57,187	58,161

The table below shows the currency breakdown.

2022	GBP £m	USD £m	EUR £m	Other £m	Total £m
Commercial paper and CDs	1,838	1,031	2,803	—	5,672
MTNs	3,746	18,750	14,217	2,768	39,481
Covered bonds	1,775	—	1,067	—	2,842
Securitisation	859	—	—	—	859
Subordinated liabilities	2,679	2,618	963	—	6,260
Total	10,897	22,399	19,050	2,768	55,114
2021	10,084	26,600	19,872	1,605	58,161

Capital, liquidity and funding risk continued

Funding gap: maturity and segment analysis

The contractual maturity of balance sheet assets and liabilities reflects the maturity transformation role banks perform, lending long-term but mainly obtaining funding through short-term liabilities such as customer deposits. In practice, the behavioural profiles of many liabilities show greater stability and longer maturity than the contractual maturity. This is particularly true of many types of retail and corporate deposits which, despite being repayable on demand or at short notice, have demonstrated very stable characteristics even in periods of acute stress.

In its analysis to assess and manage asset and liability maturity gaps, NatWest Group determines the expected customer behaviour through qualitative and quantitative techniques. These incorporate observed customer behaviours over long periods of time. This analysis is subject to governance through NatWest Group ALCo Technical committee down to a segment level. The net behavioural funding surplus/(gap) and contractual maturity analysis is set out below.

	Contractual maturity												Behavioural maturity			
	Loans to customers				Customer accounts				Net surplus/(gap)				Net surplus/(gap)			
2022	Less than 1 year £bn	1-5 years £bn	Greater than 5 years £bn	Total £bn	Less than 1 year £bn	1-5 years £bn	Greater than 5 years £bn	Total £bn	Less than 1 year £bn	1-5 years £bn	Greater than 5 years £bn	Total £bn	Less than 1 year £bn	1-5 years £bn	Greater than 5 years £bn	Total £bn
Retail Banking	12	41	144	197	187	1	—	188	175	(40)	(144)	(9)	(7)	1	(3)	(9)
Private Banking	3	6	10	19	41	—	—	41	38	(6)	(10)	22	6	5	11	22
Commercial & Institutional	57	56	26	139	214	1	—	215	157	(55)	(26)	76	6	68	2	76
Central items & other	1	—	—	1	8	—	—	8	7	—	—	7	7	—	—	7
Total	73	103	180	356	450	2	—	452	377	(101)	(180)	96	12	74	10	96
2021	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Total	87	90	166	343	475	2	—	477	388	(88)	(166)	134	11	109	14	134

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

- The net customer funding surplus has decreased by £38 billion during 2022 to £96 billion driven by a £25 billion decline in deposits and a £13 billion increase in loans to customers.
- Customer deposits and loans to customers are broadly matched from a behavioural perspective.
- The net funding surplus in 2022 is mainly concentrated in the longer dated buckets, reflecting stable characteristics of customer deposits.

Capital, liquidity and funding risk continued

Encumbrance (audited)

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

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

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

Programmes to manage the use of assets to actively support funding are established within UK DoLSub, UBIDAC and NatWest Markets Plc.

Balance sheet encumbrance

The table shows the retained encumbrance assets of NatWest Group.

	Encumbered as a result of transactions with counterparties other than central banks					Unencumbered assets not pre-positioned with central banks				
2022	Covered debts & securitisations (1) £bn	SFT, derivatives and similar (2,3) £bn	Total (4) £bn	Pre-positioned & encumbered assets held at central banks (5) £bn	Collateral ring-fenced to meet regulatory requirement (6) £bn	Readily available (7) £bn	Other available (8) £bn	Cannot be used (9) £bn	Total £bn	Total (10) £bn
Cash and balances at central banks	—	5.3	5.3	—	—	139.5	—	—	139.5	144.8
Trading assets	—	21.7	21.7	—	—	1.3	1.1	21.5	23.9	45.6
Derivatives	—	—	—	—	—	—	—	99.5	99.5	99.5
Settlement balances	—	—	—	—	—	—	—	2.6	2.6	2.6
Loans to banks - amortised cost	—	0.1	0.1	—	—	5.9	0.8	0.3	7.0	7.1
Loans to customers - amortised cost	10.4	0.4	10.8	99.9	—	92.2	122.5	40.9	255.6	366.3
Residential mortgages										
- UK	7.0	—	7.0	99.9	—	80.0	15.0	—	95.0	201.9
- RoI	—	—	—	—	—	—	—	—	—	—
Credit cards	—	—	—	—	—	4.1	0.2	—	4.3	4.3
Personal loans	—	—	—	—	—	5.4	2.2	1.4	9.0	9.0
Other	3.4	0.4	3.8	—	—	2.7	105.1	39.5	147.3	151.1
Other financial assets	—	6.3	6.3	—	1.8	21.2	0.2	1.4	22.8	30.9
Intangible assets	—	—	—	—	—	—	—	7.1	7.1	7.1
Other assets	—	—	—	—	—	—	2.5	6.7	9.2	9.2
Assets of disposal groups (11)	1.1	—	1.1	—	—	—	—	5.8	5.8	6.9
Total assets	11.5	33.8	45.3	99.9	1.8	260.1	127.1	185.8	573.0	720.0
2021										
Total assets	11.9	59.1	71.0	126.2	2.0	267.9	123.5	191.4	582.8	782.0

(1) Covered debts and securitisations include securitisations, conduits, covered bonds and secured notes.
(2) Repos and other secured deposits, cash, coin and nostro balance held with the Bank of England as collateral against deposits and notes in circulation are included here rather than within those positioned at the central bank as they are part of normal banking operations. Securities financing transactions (SFT) include collateral given to secure derivative liabilities.
(3) Derivative cash collateral of £13 billion (2021 - £12 billion) has been included in the encumbered assets basis the regulatory requirement.
(4) Total assets encumbered as a result of transactions with counterparties other than central banks are those that have been pledged to provide security and are therefore not available to secure funding or to meet other collateral needs.
(5) Assets pre-positioned at the central banks include loans provided as security as part of funding schemes and those encumbered under such schemes.
(6) Ring-fenced to meet regulatory requirement includes assets ring fenced to meet operational continuity in resolution (OCIR) investment mandate.
(7) Readily available for encumbrance: including assets that have been enabled for use with central banks but not pre-positioned; cash and high quality debt securities that form part of NatWest Group's liquidity portfolio and unencumbered debt securities.
(8) Other assets that are capable of being encumbered are those assets on the balance sheet that are available for funding and collateral purposes but are not readily realisable in their current form. These assets include loans that could be pre-positioned with central banks but have not been subject to internal and external documentation review and diligence work.
(9) Cannot be used includes:
  (a) Derivatives, reverse repurchase agreements and trading related settlement balances.
  (b) Non-financial assets such as intangibles, prepayments and deferred tax.
  (c) Loans that cannot be pre-positioned with central banks based on criteria set by the central banks, including those relating to date of origination and level of documentation.
  (d) Non-recourse invoice financing balances and certain shipping loans whose terms and structure prohibit their use as collateral.
(10) In accordance with market practice, NatWest Group employs securities recognised on the balance sheet, and securities received under reverse repo transactions as collateral for repos.
(11) The majority of UBIDAC assets are in contracted loan sale agreements as part of its phased withdrawal strategy and are unavailable for any alternative contingent liquidity arrangements. UBIDAC has in place a committed unsecured liquidity line from NatWest Bank to support the withdrawal.

Market risk (audited)

NatWest Group is exposed to non-traded market risk through its banking activities and to traded market risk through its trading activities. Non-traded and traded market risk exposures are managed and discussed separately. The non-traded market risk section begins below. The traded market risk section begins on page 258. Pension-related activities also give rise to market risk. Refer to page 262 for more information on risk related to pensions.

Non-traded market risk

Definition (audited)

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

Sources of risk (audited)

The key sources of non-traded market risk are interest rate risk, credit spread risk, foreign exchange risk, equity risk and accounting volatility risk.

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

Key developments in 2022

- Interest rates in the UK increased sharply in 2022, to levels higher than expected at the end of 2021. The Bank of England base rate rose from 0.25% at 31 December 2021 to 3.5% at 31 December 2022. The five-year sterling overnight index interest rate swap rate rose from 1.05% at 31 December 2021 to 4.10% at 31 December 2022. The corresponding ten-year rate rose from 0.95% to 3.75%.
- Overall, non-traded VaR decreased over the year, driven by a decrease in credit spread VaR. This reflected reduced holdings of bonds in the liquidity portfolio. Interest rate VaR rose, reflecting higher interest rate volatility, particularly in sterling. By year-end, interest rate risk had displaced credit spread risk as the main driver of non-traded VaR.
- NatWest Group's structural hedge notional increased to £230 billion at 31 December 2022 from £206 billion at 31 December 2021 as more balances were included in the hedging programme.
- Higher swap rates were reflected in a higher yield on the structural hedge, which rose from 0.75% in 2021 to 0.96% in 2022.
- The sensitivity of net interest earnings to a 25-basis-point upward shift in the yield curve fell to a cumulative £886 million over three years at 31 December 2022, from £1,107 million at 31 December 2021. The main contributors to lower sensitivity were lower deposit volumes and increased structural hedging.
- Sterling weakened against the US dollar, to 1.21 at 31 December 2022 compared to 1.35 at 31 December 2021. It also weakened against the euro, to 1.13 at 31 December 2022 compared to 1.19 at 31 December 2021. Residual structural foreign currency exposures decreased over the year by £1.5 billion, in sterling equivalent terms, mainly due to increased hedging.

Governance (audited)

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

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

Risk appetite

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

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

The limits are reviewed to reflect changes in risk appetite, business plans, portfolio composition and the market and economic environments. To ensure approved limits are not breached and that NatWest Group remains within its risk appetite, triggers have been set and are actively managed. For further information on risk appetite and risk controls, refer to pages 167 and 168.

Non-traded market risk continued

Risk measurement (audited)

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

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

NatWest Group's VaR metrics are explained on page 258. Each of the key risk types are discussed in greater detail in their individual sub-sections following this table.

	2022				2021			
	Average £m	Maximum £m	Minimum £m	Period end £m	Average £m	Maximum £m	Minimum £m	Period end £m
Interest rate	**30.4**	**60.7**	**7.6**	**37.7**	10.2	13.7	6.4	8.6
Credit spread	**36.3**	**86.6**	**19.9**	**20.3**	102.9	113.5	92.4	100.9
Structural foreign exchange rate	**8.9**	**11.3**	**6.1**	**11.3**	11.4	13.2	9.2	12.0
Equity	**18.1**	**22.2**	**13.7**	**14.7**	12.4	14.6	11.1	14.3
Pipeline risk (1)	**1.5**	**4.5**	**0.3**	**2.4**	0.5	1.2	0.3	1.2
Diversification (2)	**(36.9)**			**(34.9)**	(12.9)			(35.6)
Total	**58.3**	**91.2**	**45.5**	**51.5**	124.5	147.1	101.4	101.4

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

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

– Overall, non-traded VaR decreased over the year, driven by a decrease in credit spread VaR. This reflected reduced holdings of bonds in the liquidity portfolio.

– Interest rate VaR increased, reflecting higher interest rate volatility, particularly in sterling. By year-end, interest rate risk had displaced credit spread risk as the main driver of non-traded VaR.

Non-traded market risk continued

Interest rate risk

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

NTIRR comprises the following three primary risk types:

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

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

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

Structural hedging

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

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

The table below shows the total income and total yield, incremental income, and the period-end and average notional balances allocated to equity and products in respect of the structural hedges managed by NatWest Group. Total income represents the fixed leg of the hedge, while incremental income represents the difference between total income and short-term cash rates.

	2022					2021				
	Incremental income £m	Total income £m	Period end notional £bn	Average notional £bn	Total yield %	Incremental income £m	Total income £m	Period end notional £bn	Average notional £bn	Total yield %
Equity	**71**	**363**	**21**	**21**	**1.77**	426	448	21	22	2.05
Product	**(973)**	**1,571**	**184**	**176**	**0.89**	744	861	161	145	0.59
Other	**(112)**	**201**	**25**	**26**	**0.77**	139	115	24	23	0.51
Total	**(1,014)**	**2,135**	**230**	**223**	**0.96**	1,309	1,424	206	190	0.75

Equity structural hedges refer to income allocated primarily to equity and reserves. At 31 December 2022, the equity structural hedge notional was allocated between NWH Group and NWM Group in a ratio of approximately 77%/23% respectively.

Product structural hedges refer to income allocated to customer products by NWH Group Treasury, mainly current account and savings balances in Commercial & Institutional and Retail Banking. Other structural hedges refer to hedges managed by the Coutts & Co, RBS International and UBIDAC legal entities.

At 31 December 2022, approximately 94% by notional of total structural hedges were sterling-denominated.

Non-traded market risk continued

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

	2022 £m	2021 £m
Retail Banking	(463)	346
Commercial & Institutional	(510)	398
Total	(973)	744

- The increase in hedge notional, on a period-end basis, mainly resulted from increased hedging of Personal and Commercial deposits.
- The increase in total income reflected not only the increase in hedge notional but also higher yields. The total yield of the structural hedge also rose to 0.96% in 2022 from 0.75% in 2021, although the yield on the equity hedge fell as higher yielding hedges matured.
- The five-year sterling swap rate rose to 4.10% at the end of December 2022 from 1.05% at the end of December 2021. The ten-year sterling swap rate also rose, from 0.95% to 3.75%.
- Incremental income, which measures the difference between total yield and short term interest rates, turned negative. This reflects the relative stability of the total yield of the structural hedge. Compared to the 21-basis-point increase in the structural hedge total yield, the sterling overnight index average (SONIA) increased 324 basis points to 3.43% at 31 December 2022 from 0.19% at 31 December 2021.

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

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

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

Value-at-risk

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

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

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

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

Non-traded market risk continued

Sensitivity of net interest earnings

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

Earnings sensitivity is derived from a market-implied forward rate curve, which will incorporate expected changes in central bank policy rates such as the Bank of England base rate. A simple scenario is shown that projects forward earnings based on the 31 December 2022 balance sheet, which is assumed to remain constant. An earnings projection is derived from the market-implied curve, which is then subject to interest rate shocks. The difference between the market-implied projection and the shock gives an indication of underlying sensitivity to interest rate movements.

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

Three-year 25-basis-point sensitivity table

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

In all scenarios, yield curves are assumed to move in parallel.

	+25 basis points upward shift			-25 basis points downward shift		
	Year 1 £m	Year 2 £m	Year 3 £m	Year 1 £m	Year 2 £m	Year 3 £m
2022						
Structural hedges	**50**	**158**	**260**	**(50)**	**(158)**	**(260)**
Managed margin	**148**	**141**	**136**	**(170)**	**(140)**	**(129)**
Total	**198**	**299**	**396**	**(220)**	**(298)**	**(389)**
2021						
Structural hedges	40	132	224	(40)	(132)	(224)
Managed margin	269	203	239	(245)	(199)	(177)
Total	309	335	463	(285)	(331)	(401)

(1) Earnings sensitivity considers only the main drivers, namely structural hedging and margin management.
(2) Following a change in the basis of preparation of this table, it now excludes UBIDAC.

- The overall sensitivity to shifts in the yield curve decreased year on year, mainly driven by increased structural hedge volumes and lower managed margin deposit volumes.
- The sensitivity of the structural hedge increased because of the rise in hedged volumes, which increased the sensitivity to hedges maturing through the projection.
- The increased volume of hedges reduces managed margin sensitivity because a significant part of the managed margin component is the residual sensitivity of unhedged deposit volumes.
- Managed margin sensitivity further reduced due to lower deposit volumes at 31 December 2022 compared to 31 December 2021.

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

The following table analyses the one-year scenarios by currency. The sensitivity to a downward 100-basis-point shift in the yield curve has been introduced for 2022. This shift was not presented for 2021, when yield curves were already close to zero (or were negative in euros).

	2022				2021		
	Shifts in yield curve				Shifts in yield curve		
	+25 basis points £m	-25 basis points £m	+100 basis points £m	-100 basis points £m	+25 basis points £m	-25 basis points £m	+100 basis points £m
Euro	**13**	**(12)**	**48**	**(50)**	7	15	64
Sterling	**172**	**(194)**	**698**	**(784)**	260	(265)	950
US dollar	**10**	**(11)**	**42**	**(53)**	40	(33)	143
Other	**3**	**(3)**	**13**	**(16)**	2	(2)	11
Total	**198**	**(220)**	**801**	**(903)**	309	(285)	1,168

(1) Following a change in the basis of preparation of this table, it now excludes UBIDAC.

Non-traded market risk continued

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

NatWest Group holds most of the bonds in its liquidity portfolio at fair value. Valuation changes that are not hedged (or not in effective hedge accounting relationships) are recognised in FVOCI reserves.

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

The table below shows the sensitivity of FVOCI reserves and cash flow hedge reserves to a parallel shift in all rates. Cash flow hedges are assumed to be fully effective and interest rate hedges of bonds in the liquidity portfolio are also assumed to be subject to fully effective hedge accounting. No change in the spread between bonds and swaps is assumed. Hedge accounting ineffectiveness would result in deviation from the results below, with gains or losses recognised in P&L instead of reserves. Hedge ineffectiveness P&L is monitored, and the effectiveness of cash flow and fair value hedge relationships is regularly tested in accordance with IFRS requirements. Note that a movement in the FVOCI reserve would have an impact on CET1 capital but a movement in the cash flow hedge reserve would not be expected to do so. Volatility in both reserves affects tangible net asset value.

	2022				2021			
	+25 basis points £m	-25 basis points £m	+100 basis points £m	-100 basis points £m	+25 basis points £m	-25 basis points £m	+100 basis points £m	-100 basis points £m
FVOCI reserves	(3)	2	(13)	5	(46)	45	(187)	174
Cash flow hedge reserves	(278)	281	(1,097)	1,138	(210)	214	(820)	877
Total	(281)	283	(1,110)	1,143	(256)	259	(1,007)	1,051

– The sensitivity of FVOCI and cash flow hedge reserves increased in 2022, mainly due to increased cash flow hedging, partly offset by a reduction in FVOCI sensitivity as a result of bond disposals.

Non-traded market risk continued

Credit spread risk

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

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

Credit spread risk is monitored daily through sensitivities and VaR measures (refer to the non-traded VaR table earlier in this section). Exposures and limit utilisations are reported to senior management on a regular basis. Dealing mandates in place for the bond portfolios further mitigate the risk by imposing constraints by duration, asset class and credit rating.

Foreign exchange risk

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

- Structural foreign exchange rate risk – mainly arises from the capital deployed in foreign subsidiaries and branches.
- Transactional foreign exchange rate risk – arises from customer transactions and profits and losses that are in a currency other than the functional currency.
- Forecast earnings or costs in foreign currencies – NatWest Group assesses its potential exposure to forecast foreign currency income and expenses. NatWest Group hedges forward some forecast expenses.

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

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

Foreign exchange risk (audited)

The table below shows structural foreign currency exposures.

	Net investments in foreign operations £m	Net investment hedges £m	Structural foreign currency exposures pre-economic hedges £m	Economic hedges (1) £m	Residual Structural foreign currency exposures £m
2022					
US dollar	1,278	(303)	975	(975)	—
Euro	6,189	(4,164)	2,025	—	2,025
Other non-sterling	996	(431)	565	—	565
Total	8,463	(4,898)	3,565	(975)	2,590
2021					
US dollar	1,275	(260)	1,015	(1,015)	—
Euro	6,222	(2,669)	3,553	—	3,553
Other non-sterling	990	(421)	569	—	569
Total	8,487	(3,350)	5,137	(1,015)	4,122

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

- Residual structural foreign currency exposures fell in 2022, mainly due to increased hedging of net investments in euro operations.
- Changes in foreign currency exchange rates affect equity in proportion to structural foreign currency exposure pre economic hedges. For example, a 5% strengthening or weakening in foreign currencies against sterling would result in a gain or loss of £0.2 billion in equity respectively.

Non-traded market risk continued

Equity risk (audited)

Non-traded equity risk is the potential variation in income and reserves arising from changes in equity valuations. Equity exposures may arise through strategic acquisitions, through participations in industry schemes (for example, SWIFT) or through private equity arrangements (for example, the Big Society scheme).

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

Equity positions are carried at fair value on the balance sheet based on market prices where available. If market prices are not available, fair value is based on appropriate valuation techniques or management estimates.

The table below shows the balance sheet carrying value of equity positions in the banking book.

	2022 £m	2021 £m
Exchange-traded equity	**154**	16
Private equity and other	**170**	226
	324	242

The exposures may take the form of (i) equity shares listed on a recognised exchange, (ii) private equity shares defined as unlisted equity shares with no observable market parameters or (iii) other unlisted equity shares such as participation in SWIFT.

	2022 £m	2021 £m
Net realised gains arising from disposals	**106**	8
Unrealised gains included in Tier 1 or Tier 2 capital (1)	**89**	88

(1) Includes gains or losses on FVOCI instruments only.

– The increase in equity investments mainly reflects the acquisition of new investments in PTSB and Vodeno in H2 2022, partly offset by disposals.

Accounting volatility risk

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

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

Traded market risk

Definition (audited)

Traded market risk is the risk arising from changes in fair value on positions, assets, liabilities or commitments in trading portfolios as a result of fluctuations in market prices.

Sources of risk (audited)

Traded market risk mainly arises from NatWest Group's trading activities. These activities provide a range of financing, risk management and investment services to clients – including corporations and financial institutions – around the world. From a market risk perspective, activities are focused on rates; currencies; and traded credit. NatWest Group undertakes transactions in financial instruments including debt securities, as well as securities financing and derivatives.

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

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

Key developments in 2022

- The year was marked by periods of increased market volatility reflecting UK political developments, global inflationary concerns and the invasion of Ukraine
- The significant volatility in Gilts, sterling swaps and inflation entered the rolling window for VaR calculation during 2022. However, traded VaR and SVaR remained within appetite and, on an average basis, decreased compared to 2021, aided by NatWest Group's continued disciplined approach to risk-taking.

Governance (audited)

Market risk policy statements set out the governance and risk management framework. Responsibility for identifying, measuring, monitoring and controlling market risk arising from trading activities lies with the relevant trading business. The Market Risk function independently advises on, monitors and challenges the risk-taking activities undertaken by the trading business ensuring these are within the constraints of the market risk framework, policies, and risk appetite statements and measures.

Risk appetite

NatWest Group's qualitative appetite for traded market risk is set out in the traded market risk appetite statement. Quantitative appetite is expressed in terms of exposure limits. The limits at NatWest Group level comprise value-at-risk (VaR), stressed value-at-risk (SVaR) and stress-testing limits. More details on these are provided on the following pages.

For each trading business, a document known as a dealing authority compiles details of all applicable limits and trading restrictions. The desk-level mandates comprise qualitative limits related to the product types within the scope of each desk, as well as quantitative metrics specific to the desk's market risk exposures. These additional limits and metrics aim to control various risk dimensions such as exposure size, aged inventory, currency and tenor.

The limits are reviewed to reflect changes in risk appetite, business plans, portfolio composition and the market and economic environments and recalibrated to ensure that they remain aligned to NatWest Group RWA targets. Limit reviews focus on optimising the alignment between traded market risk exposure and capital usage.

To ensure approved limits are not breached and that NatWest Group remains within its risk appetite, triggers have been set such that if exposures exceed a specified level, action plans are developed by the relevant business and the Market Risk function and implemented. For more detail on risk appetite and risk controls, refer to pages 167 and 168.

Monitoring and mitigation

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

Traded market risk exposures are monitored against limits and analysed daily. A daily report summarising the position of exposures against limits at desk, business, business segment and NatWest Group levels is provided to senior management and market risk managers across the function. Limit reporting is supplemented with regulatory capital and stress testing information as well as ad-hoc reporting.

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

Business profit and loss performance is monitored automatically through loss triggers which, if breached, require a remedial action plan to be agreed between the Market Risk function and the business. The loss triggers are set using both a fall-from-peak approach and an absolute loss level. In addition, regular updates on traded market risk positions are provided to the Executive Risk Committee, the Board Risk Committee and the Board.

Measurement

NatWest Group uses VaR, SVaR and the incremental risk charge to measure traded market risk. Risks that are not adequately captured by VaR or SVaR are captured by the Risks Not In VaR (RNIV) framework to ensure that NatWest Group is adequately capitalised for market risk. In addition, stress testing is used to identify any vulnerabilities and potential losses.

The key inputs into these measurement methods are market data and risk factor sensitivities. Sensitivities refer to the changes in trade or portfolio value that result from small changes in market parameters that are subject to the market risk limit framework. Revaluation ladders are used in place of sensitivities to capture the impact of large moves in risk factors or the joint impact of two risk factors.

These methods have been designed to capture correlation effects and allow NatWest Group to form an aggregated view of its traded market risk across risk types, markets and business lines while also taking into account the characteristics of each risk type.

Value-at-risk

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

The internal VaR model – which captures all trading book positions including those products approved by the regulator – is based on a historical simulation, utilising market data from the previous 500 days on an equally-weighted basis.

Traded market risk continued

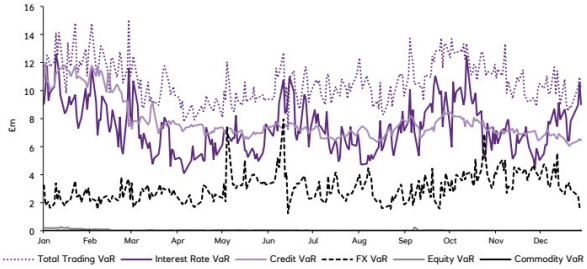
The model also captures the potential impact of interest rate risk; credit spread risk; foreign currency price risk; equity price risk; and commodity price risk.

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

The performance and adequacy of the VaR model are tested regularly through the following processes:

- Back-testing: Internal and regulatory back-testing is conducted on a daily basis. Information on internal back-testing is provided in this section. Information on regulatory back-testing appears in the Pillar 3 Report.
- Ongoing model validation: VaR model performance is assessed both regularly, and on an ad-hoc basis, if market conditions or portfolio profile change significantly.
- Model Risk Management review: As part of the model lifecycle, all risk models (including the VaR model) are independently reviewed to ensure the model is still fit for purpose given current market conditions and portfolio profile. For further detail on the independent model validation carried out by Model Risk Management refer to page 268. More information relating to pricing and market risk models is presented in the Pillar 3 Report.

One-day 99% traded internal VaR



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

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

	2022				2021			
	Average £m	Maximum £m	Minimum £m	Period end £m	Average £m	Maximum £m	Minimum £m	Period end £m
Interest rate	7.3	12.6	4.1	9.0	10.4	25.3	4.5	8.9
Credit spread	7.8	12.0	6.0	6.4	11.3	13.4	9.4	10.7
Currency	3.1	8.0	1.2	1.5	3.4	9.4	1.7	2.2
Equity	—	0.3	—	—	0.4	0.8	—	0.2
Commodity	—	—	—	—	0.1	0.5	—	—
Diversification (1)	(7.5)			(6.8)	(12.3)			(10.5)
Total	10.7	15.1	7.2	10.1	13.3	23.9	9.3	11.5

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

- On an average basis, total traded VaR was lower in 2022 than in 2021 despite the increased market volatility related to sterling Gilts, swaps and inflation entering the rolling window for VaR calculation during 2022.
- The decrease in average interest rate VaR reflected the lower tenor basis risk in sterling flow trading in 2022 than in 2021. This followed the application of a regulator-approved update to the VaR model in Q3 2021 to address the impact of the transition from LIBOR to alternative risk-free rates.
- Credit spread VaR also decreased, mainly because the heightened market volatility in March 2020, resulting from the onset of the COVID-19 crisis, dropped out of the VaR window during H1 2022.

Traded market risk

VaR back-testing

The main approach employed to assess the VaR model's ongoing performance is back-testing, which counts the number of days when a loss exceeds the corresponding daily VaR estimate, measured at a 99% confidence level.

Two types of profit and loss (P&L) are used in back-testing comparisons: Actual P&L and Hypothetical P&L. For more details on the back-testing approach, refer to the Pillar 3 Report.

The table below shows internal back-testing exceptions in the major NatWest Markets businesses for the 250-business-day period to 31 December 2022. Internal back-testing compares one-day 99% traded internal VaR with Actual and Hypothetical (Hypo) P&L.

	Back-testing exceptions	
	Actual	Hypo
Rates	2	6
Currencies	—	7
Credit	—	—
xVA	1	1

- The exceptions in the Rates business were mainly driven by market moves in sterling, euro and US dollar rates and sterling inflation.
- The exceptions in the Currencies business were mainly driven by market moves related to sterling, the euro and the US dollar.
- The total xVA loss was driven by a loss due to the default of a counterparty.

Stressed VaR (SVaR)

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

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

This is in contrast with VaR, which is based on a rolling 500-day historical data set. A time horizon of ten trading days is assumed with a confidence level of 99%.

The internal traded SVaR model captures all trading book positions.

	2022				2021			
	Average £m	Maximum £m	Minimum £m	Period end £m	Average £m	Maximum £m	Minimum £m	Period end £m
Total internal traded SVaR	70	206	34	40	95	175	46	66

- Traded SVaR was, on an average basis, lower in 2022 than in 2021, following the reduction in tenor basis risk in sterling flow trading resulting from the VaR model update in Q3 2021.

Risks Not in VaR (RNIVs)

The RNIV framework is used to identify and quantify market risks that are not fully captured by the internal VaR and SVaR models.

RNIV calculations form an integral part of ongoing model and data improvement efforts to capture all market risks in scope for model approval in VaR and SVaR.

For further qualitative and quantitative disclosures on RNIVs, refer to the Market risk section of the Pillar 3 Report.

Stress testing

For information on stress testing, refer to page 168.

Incremental risk charge (IRC)

The IRC model quantifies the impact of rating migration and default events on the market value of instruments with embedded credit risk (in particular, bonds and credit default swaps) held in the trading book. It further captures basis risk between different instruments, maturities and reference entities. For further qualitative and quantitative disclosures on the IRC, refer to the Market risk section of the Pillar 3 Report.

Market risk – linkage to balance sheet

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

	2022			2021			
	Total £bn	Non-trading business £bn	Trading business £bn	Total £bn	Non-trading business £bn	Trading business £bn	Primary market risk factor
Assets							
Cash and balances at central banks	144.8	144.8	—	177.8	177.8	—	Interest rate
Trading assets	45.6	1.2	44.4	59.2	0.7	58.5	
Reverse repos	21.5	—	21.5	20.7	—	20.7	Interest rate
Securities	9.9	—	9.9	25.0	—	25.0	Interest rate, credit spreads, equity
Other	14.2	1.2	13.0	13.5	0.7	12.8	Interest rate
Derivatives	99.5	1.3	98.2	106.1	1.6	104.5	Interest rate, credit spreads, equity
Settlement balances	2.6	0.2	2.4	2.1	0.2	1.9	Settlement
Loans to banks	7.1	7.0	0.1	7.7	7.6	0.1	Interest rate
Loans to customers	366.3	366.2	0.1	359.0	358.9	0.1	Interest rate
Other financial assets	30.9	30.9	—	46.1	46.1	—	Interest rate, credit spreads, equity
Intangible assets	7.1	7.1	—	6.7	6.7	—	Interest rate, credit spreads, equity
Other assets	9.3	9.3	—	8.3	8.3	—	
Assets of disposal groups	6.9	6.9	—	9.0	9.0	—	
Total assets	720.1	574.9	145.2	782.0	616.9	165.1	
Liabilities							
Bank deposits	20.4	20.4	—	26.3	26.3	—	Interest rate
Customer deposits	450.3	450.3	—	479.8	479.8	—	Interest rate
Settlement balances	2.0	—	2.0	2.1	—	2.1	Settlement
Trading liabilities	52.8	—	52.8	64.6	0.1	64.5	
Repos	23.7	—	23.7	19.4	—	19.4	Interest rate
Short positions	9.5	—	9.5	25.0	—	25.0	Interest rate, credit spreads
Other	19.6	—	19.6	20.2	0.1	20.1	Interest rate
Derivatives	94.0	1.5	92.5	100.8	3.6	97.2	Interest rate, credit spreads
Other financial liabilities	49.1	49.0	0.1	49.3	48.9	0.4	Interest rate
Subordinated liabilities	6.3	6.3	—	8.4	8.4	—	Interest rate
Notes in circulation	3.2	3.2	—	3.0	3.0	—	Interest rate
Other liabilities	5.5	5.5	—	5.9	5.9	—	
Total liabilities	683.6	536.2	147.4	740.2	576.0	164.2	

(1) Non-trading businesses are entities that primarily have exposures that are not classified as trading book. For these exposures, with the exception of pension-related activities, the main measurement methods are sensitivity analysis of net interest income, internal non-traded VaR and fair value calculations. For more information refer to the non-traded market risk section.

(2) Trading businesses are entities that primarily have exposures that are classified as trading book under regulatory rules. For these exposures, the main methods used by NatWest Group to measure market risk are detailed in the traded market risk section.

(3) Foreign exchange risk affects all non-sterling denominated exposures on the balance sheet across trading and non-trading businesses, and therefore has not been listed in the above tables.

Pension risk

Definition

Pension risk is defined in a consistent manner to the regulatory definition as the inability to meet contractual obligations and other liabilities to the established employee or related company pension scheme.

Sources of risk

NatWest Group has exposure to pension risk through its defined benefit schemes worldwide. The Main section of The NatWest Group Pension Fund (the Main section) is the largest source of pension risk with £34.0 billion of assets and £24.7 billion of liabilities at 31 December 2022 (2021 – £52.0 billion of assets and £42.0 billion of liabilities). Refer to Note 5 to the consolidated financial statements, for further details on NatWest Group's pension obligations, including sensitivities to the main risk factors.

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

Key developments in 2022

- There were no material changes to NatWest Group's exposure to pension risk during the year. Despite market volatility, the Main section remained resilient, primarily due to its interest rate and inflation hedging strategy, as well as its limited exposure to equities. Furthermore, the Main section held sufficient collateral in relation to its liability hedging portfolio, without the need to sell assets to meet collateral requirements. Some of NatWest Group's smaller schemes faced more challenging dynamics, with reductions in funding levels, but continued to be able to raise collateral as required. Any impact was not material at NatWest Group level.
- In line with the Memorandum of Understanding signed with the Trustee of the Main section in April 2018, a £500 million lump sum contribution was paid into the Main section, following the share buyback in Q1 2022.
- Since 31 December 2022, it has been agreed with the Trustee of the Main section, that remaining contributions of £471 million previously due to the Main section under the Memorandum of Understanding signed in April 2018, will instead be paid into a new legal structure. For further details, refer to Note 5 to the consolidated financial statements.
- As part of the ongoing phased withdrawal from the Republic of Ireland, in December 2022, an agreement was reached with the Trustees of NatWest Group's defined benefit pension schemes in the Republic of Ireland to secure the long-term strategy for the schemes.

Governance

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

For further information on governance, refer to page 165.

Risk appetite

NatWest Group maintains an independent view of the risk inherent in its pension funds. NatWest Group has an annually reviewed pension risk appetite statement incorporating defined metrics against which risk is measured.

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

Monitoring and measurement

Pension risk is monitored by the Executive Risk Committee and the Board Risk Committee, whilst the Asset & Liability Management Committee receives updates on the performance of NatWest Group's material pension funds.

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

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

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

Mitigation

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

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

Compliance and conduct risk

Definition

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

Conduct risk is the risk of inappropriate behaviour towards customers, or in the markets in which NatWest Group operates, which leads to unfair or inappropriate customer outcomes.

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

Sources of risk

Compliance and conduct risks exist across all stages of NatWest Group's relationships with its customers and arise from a variety of activities including product design, marketing and sales, complaint handling, staff training, and handling of confidential inside information.

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

Key developments in 2022

- Further progress was made on the compliance agenda during 2022. The first line of defence ring-fencing hub which was established to provide an aggregated view of ring-fencing compliance and risk management continues to work across business segments, functions and legal entities.
- From a conduct risk perspective, the focus on consumer protection increased significantly during 2022, given the cost-of-living challenges and their impact on customers in vulnerable situations. The FCA's increased expectations under its Consumer Duty initiative was also a key development, and the establishment of the consumer duty 'One Bank' programme will ensure continued focus on the required 'paradigm shift' in the levels of consumer protection.
- In December 2021, NatWest Markets Plc pled guilty to one count of wire fraud and one count of securities fraud, related to historical spoofing conduct by former employees in US Treasuries markets, between 2008 and 2014 and, separately, during approximately three months in 2018. In line with the plea agreement with DOJ, an independent monitor was appointed in 2022. The monitor will be engaged in working with NatWest Markets over a three-year period.
- More generally, work is also ongoing to further enhance the conduct and compliance risk framework so that it is aligned to a wider programme of work on the overall risk management framework.

Governance

NatWest Group defines appropriate standards of compliance and conduct and ensures adherence to those standards through its risk management framework. Relevant compliance and conduct matters are escalated through the Executive Risk Committee and Board Risk Committee.

Risk appetite

Risk appetite for compliance and conduct risks is set at Board level. Risk appetite statements articulate the levels of risk that legal entities, businesses and functions work within when pursuing their strategic objectives and business plans.

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

Mitigation

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

Financial crime risk

Definition

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

Sources of risk

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

Key developments in 2022

- 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 and data analytics to improve the effectiveness of systems used to monitor customers and transactions.
- A financial crime and fraud goal was rolled out to approximately 55,000 colleagues across NatWest Group.

Financial crime risk continued

- Financial crime roadshows were held throughout the year to further embed financial crime risk management culture and behaviours.
- Systematic Anti-Money Laundering Programme assessment. In January 2022, NatWest Group received the Skilled Person's final report in connection with governance arrangements for two financial crime change programmes in respect of which the Skilled Person had been appointed under section 166 of the Financial Services and Markets Act 2000 to provide assurance. The FCA confirmed in March 2022 that the section 166 review had been concluded.

Governance

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

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

Risk appetite

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

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

Monitoring and measurement

Financial crime risks are identified and reported through continuous risk management and regular reporting to senior risk committees and the NatWest Group Board. Quantitative and qualitative data is reviewed and assessed to measure whether financial crime risk is within risk appetite.

Mitigation

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

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

Climate risk

Definition

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

Sources of risk

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

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

Key developments in 2022

- The enhancement of scenario generation capability, building on our internal scenario analysis capability developed over 2021 that supported risk management and participation in the PRA Climate Biennial Exploratory Scenario (CBES).
- To support the management of credit risk, the application of first generation qualitative climate risk scorecards within customer conversations, and initiation of testing of enhanced scorecards including quantitative elements.
- Improved oversight of management of climate-related risk through regular reporting and review of climate risk appetite measures and key risk indicator trends informing monthly risk committee updates.
- The assessment of potential greenwashing risks driven by a hypothetical risk scenario where increased competition in the green finance market leads to less efficient product designs and diminished robustness of governance.
- The preparation of an initial iteration of the NatWest Group Climate Transition plan including identification and analysis of potential impacts associated with proposed actions.

Governance

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

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

Climate risk continued

The Climate Change Executive Steering Group is responsible for overseeing the direction of and progress against NatWest Group's climate-related commitments. During 2022, the Executive Steering Group focused on overseeing the preparation of the initial iteration of NatWest Group's Climate Transition Plan, progression in establishing partnerships and opportunities including oversight of progress against the NatWest Group climate and sustainable funding and financing target, and ensuring the effective management of climate-related risks. The Executive Steering Group will continue to supervise strategic implementation and delivery, supported by the Climate Centre of Excellence.

Risk appetite

NatWest Group's ambition is to be a leading bank in the UK in helping to address climate change. This ambition is underpinned by activity to reduce the climate impact of financing activity by at least 50% by 2030 and to achieve net zero by 2050.

Work continued in 2022 to mature NatWest Group's climate-related risk capabilities in accordance with the risk management framework. In December 2022, the 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.

Combined with segment-specific risk measures, this suite of metrics will enable reporting of climate risk appetite to senior risk management forums and links risk management to NatWest Group's strategic goals and priorities.

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 and maximise the opportunities arising from a transition to a low-carbon economy.

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

Key priorities in 2022 have included enhancing our climate scenario analysis capabilities to both address ongoing regulatory expectations and building on the infrastructure required by NatWest Group to meet current and future climate scenario analysis objectives. NatWest Group made significant investment in developing a variety of internal scenario analysis tools which support the development of commercial strategy, products and services and help manage risks, including managing exposures efficiently and removing unmitigated risks from future climate impacts.

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

- Regulatory stress testing requirements.
- Heightened climate risk sector classifications.
- Sector/sub-sector risk appetite.
- Lending pricing.
- Portfolio management.
- Strategic decision-making.

NatWest Group made material progress in developing internal climate modelling capabilities, building on the learnings from our internal scenario analysis carried out in 2021 and participation in the CBES. NatWest Group has enhanced its scenario generation capabilities to support future integration of climate risk into strategic planning, Internal Capital Adequacy Assessment Processes (ICAAP) and IFRS 9. Modelling infrastructure to execute scenarios matured in 2022, giving increased flexibility for scenario analysis capability for short, medium and long-term scenarios. Incorporation into the NatWest Group strategic plan and ICAAP ensures that NatWest Group factors climate into strategic planning and appropriately capitalises for the most material source of climate risk over the capital planning horizon. Developing internal methodologies also enhances the capacity to integrate scenario analysis with customer journeys. This builds on NatWest Group's ability not only to effectively develop tools for risk management but also to develop products and processes that support NatWest Group's customers' transition.

NatWest Group also focused on developing an internal methodology for forecasting its counterparties' corporate transition risk via counterparty level modelling infrastructure and climate risk customer scorecards. NatWest Group is actively targeting the minimisation of reliance on third party models, whilst recognising there is likely to be some reliance on them over the medium-to-long term given the specialist and evolving nature of climate financial risk management. Enhancement of this infrastructure links very closely with the scenario analysis noted above. Further information on this can be found in NatWest Group's 2022 Climate-related Disclosures Report.

Internal scenario analysis carried out to support participation in the CBES focused on the application of three climate scenarios (early policy action, late policy action and no additional action and a counterfactual scenario) to quantify climate risk across NatWest Group's lending portfolio. This showed that NatWest Group was most exposed to a late transition scenario with a concentrated period of losses between 2030 and 2035, the point at which disruptive transition policy is implemented, resulting in an economic recession. The early action scenario resulted in more gradual losses through the stress horizon, with the earlier onset of transition curtailing impairments in comparison to the sharp onset in the late action scenario. A key conclusion for transition risk is that supporting customers' transition to net zero is critical to manage NatWest Group's exposures to transition risk.

The effects of physical risk were explored through the no additional action scenario which produced lower total cumulative impairments compared to the early action and late action scenarios. This comparatively lower level of impairments is reflective of NatWest Group's diversified book and geographic exposure. NatWest Group's results broadly aligned with the key findings and aggregate outcome for banks (across both physical and transition risk).

Climate risk continued

However, NatWest Group recognises the industry data and methodology limitations for physical risk and therefore recognises that the no additional action scenario does not capture the severe long-term effects of irreversible climate change. Further information on results, limitations and conclusions can be found in NatWest Group's 2022 Climate-related Disclosures Report.

There are a number of challenges with climate scenario analysis, for example in relation to climate data. NatWest Group continues to participate in a number of industry forums including the United Nations Principles for Responsible Banking, which provides a unique framework for banks to align strategy and practice with the Sustainable Development Goals and Paris Climate Agreement. In addition, NatWest Group is also represented on the Climate Financial Risk Forum established by the PRA and FCA to shape the financial services industry's response to the challenges posed by climate risk and continues to work with a number of UK and international bodies to develop climate scenario analysis best practices.

NatWest Group is continuing to make progress in embedding climate risk analytics as appropriate across customer journeys and in supporting decision-making at customer and strategic portfolio levels. Leveraging qualitative and quantitative outputs from scenario analysis, will enable NatWest Group to integrate outcomes into risk appetite measures and customer origination processes. Developing the ability to incorporate these outcomes enables NatWest Group to manage and mitigate both the risks but also the opportunities that are presented by climate risk.

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, 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 2022

- A review of the NatWest Group Risk Directory was completed, allowing greater risk visibility and improved risk reporting.
- The NatWest Group Impact Classification Matrix was updated to align to industry materiality, ensuring focus on the most material risks.
- An Early Event Escalation Process was implemented to ensure material events are escalated in a timely manner.
- A Risk & Control Self-Assessment approach was developed to identify risks across end-to-end processes, refocusing existing risk assessment, towards materiality.
- A payments review has been initiated in late 2022 to assess control enhancements in response to manual payment risk.

Governance

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

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

Risk appetite

Operational risk appetite supports effective management of all operational risks. It expresses the level and types of operational risk NatWest Group is willing to accept to achieve its strategic objectives and business plans. NatWest Group's operational risk appetite statement encompasses the full range of operational risks faced by its legal entities, businesses and functions.

Mitigation

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

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

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

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.

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 to ensure they remain relevant and that they capture any emerging risks and also ensure that these risks are reassessed.

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

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

Operational risk continued

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

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

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

Operational resilience

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

NatWest Group operates layered security controls and its network architecture is designed to provide inherent protection against threats. This approach avoids reliance on any one type or method of security control. Minimum security control requirements are set out in Key Risk policies, standards, processes and procedures. Through 2023 NatWest Group will monitor and manage the threat landscape focusing on:

- Attack Surface Vulnerabilities - such as the rising number of zero-days and code vulnerabilities impacting organisations
- Initial Access Brokers and Nation States – increasingly sophisticated attacks from ransomware gangs and ongoing challenges following Russia's invasion of Ukraine which has raised international tensions increasing the likelihood of disruptive cyber-attacks.

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

Event and loss data management

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

All financial impacts and recoveries associated with an operational risk event are reported against the date they were recorded in NatWest Group's financial accounts. A single event can result in multiple losses (or recoveries) that may take time to crystallise. Losses and recoveries with a financial accounting date in 2021 may relate to events that occurred, or were identified in, prior years. NatWest Group purchases insurance against specific losses and to comply with statutory or contractual requirements.

Percentage and value of events

At 31 December 2022, events aligned to the clients, products and business practices (CPBP) event category accounted for 76% of NatWest Group's operational risk losses (compared to 80% in 2021). The decrease reflects lower conduct-related provisions were recorded during 2022 compared to prior years.

	Value of events				Volume of events (1)	
	£m		Proportion		Proportion	
	2022	2021	2022	2021	2022	2021
Fraud	34	71	17%	16%	90%	81%
Clients, products and business practices	153	366	76%	80%	2%	7%
Execution, delivery and process management	14	9	7%	2%	7%	8%
Employment practices and workplace safety	—	6	—	1%	1%	3%
Technology and infrastructure failures	1	3	—	1%	—	1%
Disasters and public safety	—	—	—	—	—	—
	202	455	100%	100%	100%	100%

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

Model risk

Definition

Model risk is the risk of inaccurate financial assessments or decisions made as a result of incorrect or misused model outputs and reports. NatWest Group defines a model as a quantitative method, system, or approach that applies statistical, economic, financial, accounting, mathematical or data science theories, techniques and assumptions to process input data into quantitative estimates.

Sources of risk

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

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

Key developments in 2022

- NatWest Group's model risk management practices continued to evolve, driven through a dedicated Model Management Programme. This delivered an enhanced model management committee structure, a new model risk governance team operating model and an improved model inventory.
- Aligned to the implementation of the enterprise-wide risk management framework, new model risk management procedures were approved to support the identification, assessment and monitoring of model risk.
- NatWest Group provided a comprehensive response to the PRA's Consultation Paper on Model Risk Management (CP6/22). A self-assessment of the bank's current Model Risk Policy compared to the PRA's draft Supervisory Statement was completed and gaps identified. A programme of work will be established in 2023 to continue to evolve the bank's model risk management framework in line with regulatory expectations and industry best practice.

Governance

A governance framework is in place to ensure policies and processes relating to models are appropriate and effective. Two roles are key to this – model risk owners and model risk officers. Model risk owners are responsible for model approval and ongoing performance monitoring. Model risk officers, 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. Model risk matters are escalated to senior management in several ways.

These include model risk oversight committees, as well as the relevant business and function model management committees.

A new NatWest Group Model Risk Oversight Committee will further enhance model risk governance by providing a direct escalation route to the NatWest Group Executive Risk Committee and, where applicable, onwards to the NatWest Group Board Risk Committee.

Risk appetite

Model risk appetite is set in order to limit the level of model risk that NatWest Group is willing to accept in the course of its business activities. The model risk appetite statement and measures are approved by the board on BRC's recommendation. Business areas are responsible for monitoring performance against appetite and remediating models outside appetite.

Monitoring and measurement

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

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

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

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

If a model risk issue arises due to an operational control weakness (and the residual risk meets the operational risk thresholds, then an operational risk issue would be raised.

Mitigation

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

Reputational risk

Definition

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

Sources of risk

Reputational risks can originate from internal actions and external events. The three primary drivers of reputational risk have been identified as: failure in internal execution; a conflict between NatWest Group's values and the public agenda; and contagion (when NatWest Group's reputation is damaged by failures in the wider financial sector).

Reputational risk continued

Key developments in 2022

- A new reputational risk policy was implemented to manage reputational risk at an organisational level.
- The NatWest Group Reputational Risk Register was further embedded into the organisation, the results of which are reported to the NatWest Group Reputational Risk Committee.
- All Environmental, Social & Ethical (ESE) risk acceptance criteria underwent a review to align with Our Purpose.

Governance

A reputational risk policy supports reputational risk management across NatWest Group. Reputational risk committees review relevant issues at an individual business or entity level, while the NatWest Group Reputational Risk

Committee opines on issues, cases, sectors and themes that represent material reputational risks. The NatWest Group Board Risk Committee oversees the identification and reporting of reputational risk.

Risk appetite

NatWest Group manages and articulates its appetite for reputational risk through a qualitative reputational risk appetite statement and associated quantitative measures. NatWest Group seeks to identify, measure and manage risk aligned to stakeholder trust. However, reputational risk is inherent in NatWest Group's operating environment and public trust is a specific factor in setting reputational risk appetite.

Monitoring and measurement

Relevant internal and external factors are monitored through regular reporting to the reputational risk committees at business or entity level and escalated, where appropriate, to the NatWest Group Reputational Risk Committee or the NatWest Group Board Risk Committee.

Mitigation

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

External events that could cause reputational damage are identified and mitigated through NatWest Group's Top and Emerging Threats process (where sufficiently material) as well as through the NatWest Group and business segment-level risk registers.

NatWest Group has in recent years been the subject of investigations and reviews by a number of regulators and governmental authorities, some of which have resulted in past fines, settlements and public censure. Refer to the Litigation and regulatory matters section of Note 26 to the consolidated financial statements for details of material matters currently affecting NatWest Group.

Forward looking statements

Cautionary statement regarding forward-looking statements

Certain sections in this document contain 'forward-looking statements' as that term is defined in the United States Private Securities Litigation Reform Act of 1995, such as statements that include the words 'expect', 'estimate', 'project', 'anticipate', 'commit', 'believe', 'should', 'intend', 'will', 'plan', 'could', 'probability', 'risk', 'Value-at-Risk (VaR)', 'target', 'goal', 'objective', 'may', 'endeavour', 'outlook', 'optimistic', 'prospects' and similar expressions or variations on these expressions. In particular, this document includes forward-looking targets and guidance relating to financial performance measures, such as income growth, operating expense, RoTE, ROE, discretionary capital distribution targets, impairment loss rates, balance sheet reduction, including the reduction of RWAs, CET1 ratio (and key drivers of the CET1 ratio including timing, impact and details), Pillar 2 and other regulatory buffer requirements and MREL and non-financial performance measures, such as NatWest Group's initial area of focus, climate and ESG-related performance ambitions, targets and metrics, including in relation to initiatives to transition to a net zero economy, Climate and Sustainable Funding and Financing (CSFF) and financed emissions. In addition, this document includes forward-looking statements relating, but not limited to: implementation of NatWest Group's purpose-led strategy and other strategic priorities (including in relation to: phased withdrawal from ROI, cost-controlling measures, the NatWest Markets refocusing, the creation of the C&I franchise and the progression towards working as One Bank across NatWest Group to serve customers); the timing and outcome of litigation and government and regulatory investigations; direct and on-market buy-backs; funding plans and credit risk profile; managing its capital position; liquidity ratio; portfolios; net interest margin and drivers related thereto; lending and income growth, product share and growth in target segments; impairments and write-downs; restructuring and remediation costs and charges; NatWest Group's exposure to political risk, economic assumptions and risk, climate, environmental and sustainability risk, operational risk, conduct risk, financial crime risk, cyber, data and IT risk and credit rating risk and to various types of market risk, including interest rate risk, foreign exchange rate risk and commodity and equity price risk; customer experience, including our Net Promotor Score (NPS); employee engagement and gender balance in leadership positions.

Limitations inherent to forward-looking statements

These statements are based on current plans, expectations, estimates, targets and projections, and are subject to significant inherent risks, uncertainties and other factors, both external and relating to NatWest Group's strategy or operations, which may result in NatWest Group being unable to achieve the current plans, expectations, estimates, targets, projections and other anticipated outcomes expressed or implied by such forward-looking statements. In addition, certain of these disclosures are dependent on choices relying on key model characteristics and assumptions and are subject to various limitations, including assumptions and estimates made by management. By their nature, certain of these disclosures are only estimates and, as a result, actual future results, gains or losses could differ materially from those that have been estimated. Accordingly, undue reliance should not be placed on these statements. The forward-looking statements contained in this document speak only as of the date we make them and we expressly disclaim any obligation or undertaking to update or revise any forward-looking statements contained herein, whether to reflect any change in our expectations with regard thereto, any change in events, conditions or circumstances on which any such statement is based, or otherwise, except to the extent legally required.

Important factors that could affect the actual outcome of the forward-looking statements

We caution you that a large number of important factors could adversely affect our results or our ability to implement our strategy, cause us to fail to meet our targets, predictions, expectations and other anticipated outcomes or affect the accuracy of forward-looking statements described in this document. These factors include, but are not limited to, those set forth in the risk factors and the other uncertainties described in NatWest Group plc's Annual Report on Form 20-F and its other filings with the US Securities and Exchange Commission. The principal risks and uncertainties that could adversely NatWest Group's future results, its financial condition and/or prospects and cause them to be materially different from what is forecast or expected, include, but are not limited to: economic and political risk (including in respect of: political and economic risks and uncertainty in the UK and global markets, including due to high inflation, supply chain disruption and the Russian invasion of Ukraine); uncertainty regarding the effects of Brexit; changes in interest rates and foreign currency exchange rates; and HM Treasury's ownership as the largest shareholder of NatWest Group plc); strategic risk (including in respect of the implementation of NatWest Group's purpose-led Strategy; future acquisitions and divestments; phased withdrawal from ROI and the transfer of its Western European corporate portfolio); financial resilience risk (including in respect of: NatWest Group's ability to meet targets and to make discretionary capital distributions; the competitive environment; counterparty and borrower risk; prudential regulatory requirements for capital and MREL; liquidity and funding risks; changes in the credit ratings; the requirements of regulatory stress tests; model risk; sensitivity to accounting policies, judgments, assumptions and estimates; changes in applicable accounting standards; the value or effectiveness of credit protection; the adequacy of NatWest Group's future assessments by the Prudential Regulation Authority and the Bank of England; and the application of UK statutory stabilisation or resolution powers); climate and sustainability risk (including in respect of: risks relating to climate change and the transitioning to a net zero economy; the implementation of NatWest Group's climate change strategy, including publication of an initial climate transition plan in 2023 and climate change resilient systems, controls and procedures; climate-related data and model risk; the failure to adapt to emerging climate, environmental and sustainability risks and opportunities; changes in ESG ratings; increasing levels of climate, environmental and sustainability related regulation and oversight; and climate, environmental and sustainability-related litigation, enforcement proceedings and investigations); operational and IT resilience risk (including in respect of: operational risks (including reliance on third party suppliers); cyberattacks; the accuracy and effective use of data; complex IT systems; attracting, retaining and developing senior management and skilled personnel; NatWest Group's risk management framework; and reputational risk); and legal, regulatory and conduct risk (including in respect of: the impact of substantial regulation and oversight; compliance with regulatory requirements; the outcome of legal, regulatory and governmental actions and investigations; the transition of LIBOR other IBOR rates to replacement risk-free rates; and changes in tax legislation or failure to generate future taxable profits).

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Climate and ESG disclosures

Climate and ESG disclosures in this document are not measures within the scope of International Financial Reporting Standards ('IFRS'), use a greater number and level of judgements, assumptions and estimates, including with respect to the classification of climate and sustainable funding and financing activities, than our reporting of historical financial information in accordance with IFRS. These judgements, assumptions and estimates are highly likely to change over time, and, when coupled with the longer time frames used in these disclosures, make any assessment of materiality inherently uncertain. In addition, our climate risk analysis, net zero strategy, including the implementation of our climate transition plan remain under development, and the data underlying our analysis and strategy remain subject to evolution over time. The process we have adopted to define, gather and report data on our performance on climate and ESG measures is not subject to the formal processes adopted for financial reporting in accordance with IFRS and there are currently limited industry standards or globally recognised established practices for measuring and defining climate and ESG related metrics. As a result, we expect that certain climate and ESG disclosures made in this document are likely to be amended, updated, recalculated or restated in the future. Please also refer to the cautionary statement in the section entitled 'Climate-related and other forward-looking statements and metrics' of the NatWest Group 2022 Climate-related Disclosures Report.

Cautionary statement regarding Non-IFRS financial measures and APMs

NatWest Group prepares its financial statements in accordance with generally accepted accounting principles (GAAP). This document may contain financial measures and ratios not specifically defined under GAAP or IFRS ('Non-IFRS') and/or alternative performance measures ('APMs') as defined in European Securities and Markets Authority ('ESMA') guidelines. Non-IFRS measures and/or APMs are adjusted for notable and other defined items which management believes are not representative of the underlying performance of the business and which distort period-on-period comparison. Non-IFRS measures provide users of the financial statements with a consistent basis for comparing business performance between financial periods and information on elements of performance that are one-off in nature. Any Non-IFRS measures and/or APMs included in this document, are not measures within the scope of IFRS, are based on a number of assumptions that are subject to uncertainties and change, and are not a substitute for IFRS measures.

The information, statements and opinions contained in this document do not constitute a public offer under any applicable legislation or an offer to sell or a solicitation of an offer to buy any securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments.