NatWest Markets Plc 18 February 2021

Annual Report and Accounts 2021

A copy of the Annual Report and Accounts 2021 for NatWest Markets Plc will shortly be submitted to the National Storage Mechanism and will be available for inspection at https://data.fca.org.uk/#/nsm/nationalstoragemechanism. The document will be available on NatWest Group plc's website at https://investors.natwestgroup.com/reports-archive

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For the purpose of compliance with the Disclosure Guidance and Transparency Rules, this announcement also contains risk factors extracted from the Annual Report and Accounts 2021 in full unedited text. Page references in the text refer to page numbers in the Annual Report and Accounts 2021.

Principal Risks and Uncertainties

Set out below are certain risk factors that could adversely affect NWM 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. 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 on its own of all potential risks and uncertainties facing NWM Group. The COVID-19 pandemic may exacerbate any of the risks described below.

Economic and political risk

The impact of the COVID-19 pandemic and related uncertainties continue to affect the UK, global economies and financial markets and NWM Group's customers, as well as its competitive environment, which may continue to have an adverse effect on NWM Group.

In many countries, including the UK (NWM Group's most significant market), the COVID-19 pandemic has, at times, resulted in the imposition of strict social distancing measures, restrictions on non-essential activities and travel quarantines, in an attempt to slow the spread and reduce the impact of the COVID-19 pandemic.

Despite widespread COVID-19 vaccination within the geographical regions in which NWM Group operates, the proliferation of COVID-19 variants continues to affect the UK and global economies. Further waves of infection or the spread of new strains may result in renewed restrictions in affected countries and regions. As a result, significant uncertainties remain as to how long the impact of the COVID-19 pandemic will last, and how it will continue to affect the global economy.

In response to the COVID-19 pandemic, central banks, governments, regulators and legislatures in the UK and elsewhere have offered unprecedented levels of support and various schemes to assist impacted businesses and individuals. This has included forms of financial assistance and legal and regulatory initiatives. Many of these support schemes have now been curtailed. However, uncertainty remains as to the impact of the ending or tapering of these schemes and the repayment of the loans involved on customers, the economic environment and NWM Group. Moreover, it is unclear as to how any further measures, such as rising interest rates and inflation, may affect NWM Group's business and performance.

The COVID-19 pandemic has 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 from home. These changes may have long-lasting impacts on asset prices, the economic environment and its customers' financial needs.

Uncertainties relating to the COVID-19 pandemic has made reliance on analytical models, planning and forecasting for NWM Group more complex, and may result in uncertainty impacting the risk profile of NWM Group and/or that of the wider banking industry. The medium and long-term implications of the COVID-19 pandemic for NWM Group customers, and the UK and global economies and financial markets remain uncertain.

Any of the above may have a negative impact on NWM Group.

NWM Group faces continued economic and political risks and uncertainty in the UK and global markets.

The value of NWM Group's financial instruments 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 NWM Group's financial instruments, particularly during periods of market displacement. This could cause a decline in the value of NWM Group's financial instruments. This may have an adverse effect on NWM Group's results of operations in future periods, or cause inaccurate carrying values for certain financial instruments. Similarly, NWM Group trades a considerable amount of financial instruments (including derivatives) and volatile market conditions could result in a significant decline in NWM Group's net trading income or result in a trading loss.

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 extreme conditions, hedging and other risk management strategies may not be as effective at mitigating trading 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 NWM Group's counterparty risk. NWM Group's risk management and monitoring processes seek to quantify and mitigate NWM Group's exposure to extreme market moves. However, severe market events have historically been difficult to predict and NWM Group could realise significant losses if extreme market events were to occur.

The outlook for the global economy over the medium-term remains uncertain due to a number of factors including: the COVID-19 pandemic, societal inequalities and changes, trade barriers and the increased possibility and/or continuation of trade wars, widespread political instability (including as a result of populism and nationalism, which may lead to protectionist policies, state and privately sponsored cyber and terrorist acts or threats, efforts to destabilise regimes or armed conflict), changes in inflation and interest rates (including negative interest rates), supply chain disruption, climate, environmental, social and other sustainability-related risks and global regional variations in the impact and responses to these factors.

These conditions could be worsened by a number of factors including macro-economic deterioration, increased instability in the global financial system and concerns relating to further financial shocks or contagion (for example, due to economic concerns in emerging markets), market volatility or fluctuations in the value of the pound sterling, new or extended economic sanctions, volatility in commodity prices or concerns regarding sovereign debt. This may be compounded by the changing demographics of the populations in the markets that NWM Group serves, increasing inequalities, or rapid change to the economic environment due to the adoption of technology and artificial intelligence. Any of the above developments could adversely impact NWM Group directly (for example, as a result of credit losses) or indirectly (for example, by impacting global economic growth and financial markets and NWM Group's clients and their banking needs).

In addition, NWM Group is 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.

Furthermore, unfavourable political, military or diplomatic events, including secession movements or the exit of other member states from the EU, armed conflict, pandemics and widespread public health crises (including the current COVID-19 pandemic and any future epidemics or pandemics), state and privately sponsored cyber and terrorist acts or threats, and the responses to them by governments and markets, could negatively affect the business and performance of NWM Group, including as a result of the indirect effect on regional or global trade and/or NWM Group's customers.

NatWest Group faces political uncertainty in Scotland as a result of a possible second Scottish independence referendum. Independence may impact NWM Group since NatWest Group plc and other NatWest Group entities (including NWM Plc) are incorporated in Scotland. Any changes to Scotland's relationship with the UK or the EU would impact the environment in which NatWest Group and its subsidiaries operate, and may require further changes to NatWest Group (including NWM Group's structure), independently or in conjunction with other mandatory or strategic structural and organisational changes which, any of which could adversely impact NWM Group.

Any of the above may have a negative effect on NWM Group.

Continuing uncertainty regarding the effects and extent of the UK's post Brexit divergence from EU laws and regulation, and NWM Group's post Brexit EU operating model may continue to adversely affect NWM 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 provides for free trade between the UK and EU with zero tariffs and quotas on all goods that comply with the appropriate rules of origin, with minimal coverage. However, for financial services, UK-incorporated financial services providers no longer have EU passporting rights and there is no mutual recognition regime. Financial services may largely be subject to individual equivalence decisions by relevant regulators. A number of temporary equivalence decisions have been made that cover certain services offered by NWM Group. The EU's equivalence regime does not cover most lending and deposit taking, and determinations in respect of third countries have not, to date, covered the provision of most investment services. In addition, equivalence determinations do not guarantee permanent access rights and can be withdrawn with short notice. The TCA is 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, which has yet to be signed. In late 2021 the European Commission proposed draft 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. Furthermore, failure to extend existing equivalence determinations, exemptions and derogations in relation to regulations such as margin and clearing regulations or capital regulations, may have a negative impact on customer engagement and/or may significantly negatively impact the operating model and business operations of NWM Group.

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. 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 intend to move EEA business to an EEA licensed subsidiary or branch. There is a risk that these EEA licenses may not be granted or may be withdrawn, and where these permissions are not obtained, further changes to NatWest Group's operating model may be required or some business may need to be ceased. In addition, failure to obtain required regulatory permissions or licences in one part of NatWest Group may impact other parts of NatWest Group adversely. 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, would allow NatWest Group to continue to serve EEA customers from both the ring-fenced and non-ring-fenced banking entities. As described in '*NWM Group has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy (including the NWM Refocusing) and may continue to be subject to significant structural and other change*', NWM Group expects that NatWest Group's Transfer Business will be transferred from the ring-fenced subgroup of NatWest Group to NWM Group. 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 greater than expected costs. The changes to NatWest Group's and NWM Group's operating model have been costly and further changes to its business operations, product offering and customer engagement could result in further costs and operating complexity. Any of the above could, in turn, negatively impact NWM Group.

The long-term effects of Brexit and the uncertainty regarding NWM Group's EU operating model may have a negative impact on NWM Group's business. These may be exacerbated by wider global macro-economic trends and events, particularly COVID-19 pandemic related uncertainties, which may significantly impact NWM Group and its customers and counterparties who are themselves dependent on trading with the EU or personnel from the EU. They may exacerbate the global macro-economic impacts on the UK, the Republic of Ireland ('ROI') and the rest of the EU/EEA.

Significant uncertainties remain as to the extent to which EU/EEA laws will diverge from UK law (including bank regulation), whether and what equivalence determinations will be made by the various regulators, whether the proposed EEA licensed subsidiary is granted a banking licence, whether banking services will be harmonised across the EEA and, therefore, what the respective legal and regulatory arrangements will be, under which NWM Group and its subsidiaries will operate. This divergence could lead to further market fragmentation. These risks and uncertainties may require costly changes to NWM Group's EU operating model. The legal and political uncertainty, and any actions taken as a result of this uncertainty, as well as the approach taken by regulators and new or amended rules, could have a significant adverse impact on NWM Group's businesses, non-UK operations and/or legal entity structure, including attendant operating, compliance and costs, level of impairments, capital requirements, changes to intragroup arrangements, increased complexity, regulatory environment and tax implications and as a result may adversely impact NWM Group's profitability, competitive position, business model and product offering.

Changes in interest rates have affected and will continue to affect NWM Group's business and results.

NWM Group is affected by interest rate risk. Monetary policy has been accommodative in recent years including initiatives implemented by the Bank of England and HM Treasury, such as the Term Funding Scheme with additional incentives for SMEs ('TFSME'), which have helped to support demand at a time of pronounced fiscal tightening and balance sheet repair. However, market expectations are currently that benchmark interest rates such as UK base rate, could begin to rise further and faster than had been anticipated previously and that this could be accompanied by other measures to reverse accommodative policy, such as quantitative tightening.

While increases in medium term swap rates may support the yield of NWM Group's equity structural hedge, sharp rises could have macroeconomic effects that lead to adverse outcomes for the business or customers. For example, they could lead to generally weaker than expected growth, or even contracting GDP, reduced business confidence and higher levels of unemployment or underemployment, all of which could have an adverse effect on NWM Group's business, results of operations and outlook. Conversely, decreases in interest rates and/or continued sustained low, zero or negative interest rates would be expected to put pressure on NWM Group's interest income and profitability.

Unexpected moves in interest rates will also affect valuations of assets and liabilities that are recognised at fair value on the balance sheet. Changes in these valuations may be adverse. Unexpected movements in spreads between key benchmark rates could have adverse impacts and also adversely affect NWM Group's financial position. Finally, changes in interest rates and inflation may adversely affect the income from NWM Group's dealing activity.

Changes in foreign currency exchange rates may affect NWM Group's results and financial position.

Decisions of major central banks (including the Bank of England, the European Central Bank and the US Federal Reserve) and political or market events which are outside NWM Group's control, may lead to sharp and sudden variations in foreign exchange rates.

As part of NatWest Group's strategy, NWM Group is now the markets business for NatWest Group, and is engaged principally in offering risk management, trading solutions and debt financing to financial institutions and UK and European corporate customers. NWM Group entities issue instruments in foreign currencies that assist in meeting their respective capital and/or MREL requirements. In addition, NWM Plc has exposure to foreign exchange movements from the provision of foreign currency products to its clients and particularly to euro movements via its subsidiary, NWM NV, USD via its subsidiary NWMSI in addition to further investments in other currencies in overseas operations. In its day-to-day operations, NWM Group maintains policies and procedures designed to manage the impact of exposures to fluctuations in currency rates. Nevertheless, changes in currency rates, particularly in the sterling-US dollar and euro-sterling exchange rates, can adversely affect 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 NWM Group.

HM Treasury (or UKGI on its behalf) could exercise a significant degree of influence over NatWest Group and NWM Group is controlled by NatWest Group.

In its March 2021 Budget, the UK Government announced its intention to continue the process of privatisation of NatWest Group plc and 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 2025-2026. As a result of a directed buyback of NatWest Group plc shares by NatWest Group plc from UK Government Investments Limited ('UKGI') in March 2021, sales of NatWest Group plc shares by UKGI by accelerated bookbuild in May 2021 and purchases made under NatWest Group plc's on-market buyback program announced in July 2021, as at 11 February 2022, the UK Government held 50.94% of the issued share capital with voting rights of NatWest Group plc. In addition to the £750 million on-market buyback announced on 18 February 2022, NatWest Group may participate in further directed or on-market buybacks in the future. The timing, extent and continuation of UKGI's sell-downs is uncertain, which could result in a prolonged period of increased price volatility on NatWest Group plc's ordinary shares.

HM Treasury has indicated that it intends to respect the commercial decisions of NatWest Group and that NatWest Group entities (including NWM Group) will continue to have its own independent board of directors and management team determining their own strategy. However, for as long as HM Treasury remains NatWest Group plc's, as the largest single shareholder, and UKGI (as manager of HM Treasury's shareholding) could exercise a significant degree of influence over the election of directors and appointment of senior management, NatWest Group's (including NWM Group's) capital strategy, dividend policy, remuneration policy or the conduct of NatWest Group's operations, amongst others. HM Treasury or UKGI's approach depends on government policy, which could change, including as a result of a general election. The manner in which HM Treasury or UKGI exercises HM Treasury's rights as the largest single shareholder of NatWest Group could give rise to conflicts between the interests of HM Treasury and the interests of other shareholders, including as a result of a change in government policy. The exertion of such influence over NatWest Group could in turn have an adverse effect on the governance or business strategy of NWM Group.

In addition, NWM Plc is a wholly owned subsidiary of NatWest Group plc, and NatWest Group plc therefore controls NWM Group's board of directors, corporate policies and strategic direction. The interests of NatWest Group plc as an equity holder and as NWM Group's parent may differ from the interests of NWM Group or of potential investors in NWM Group's securities.

Strategic risk

NWM Group has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy (including the NWM Refocusing) and may continue to be subject to significant structural and other change.

In February 2020, NatWest Group announced its 'purpose-led strategy', which is focused on becoming a purpose-led business designed to champion potential, and to help individuals, families and businesses to thrive. This strategy has required, and continues to require, changes in NWM Group's business, including an increased focus on serving NatWest Group's corporate and institutional customer base. To date, NWM Group has implemented this strategy through its 'NWM Refocusing' initiative by simplifying its operating model and technology platform, as well as reducing its cost base and capital requirements. The implementation of the NWM Refocusing has been a complex process and although substantial progress has been made, the risk remains that this strategy may not result in the contemplated business outcome.

On 27 January 2022, NatWest Group announced that, in order to further support its customers' growth ambitions and deliver on the next phase of its strategy, it is evolving its Commercial, NatWest Markets and RBS International businesses to form a single franchise to best support its customers across the full non-personal customer lifecycle. The transition is expected to begin over the coming months and be effective from July 2022. Any of the above may result in material execution, commercial and operational (including compliance with the UK ring-fencing regime) risks for NWM Group and NWM Group may continue to be subject to significant structural and other change.

As part of the NWM Refocusing, NWM Group has directed resources to emphasising and growing product capability in the areas of importance to NatWest Group's corporate and institutional customers, including the Fixed Income and Capital Markets businesses, and has refocused its Rates business to best serve its core customers. As a result of focusing further on NatWest Group core corporate customers, NWM Group's prospects are becoming further dependent on the success and strategy of NatWest Group.

In addition, to improve efficiencies and best serve customers, including in light of Brexit planning, NWM Group expects that certain assets, liabilities, transactions and activities of NatWest Group (including NatWest Group's Western European corporate portfolio, principally including term funding and revolving credit facilities) (the 'Transfer Business'), will be transferred from the ring-fenced subgroup of NatWest Group to NWM Group on a rolling basis, subject to certain regulatory and customer requirements. The timing and quantum of such transfers remains uncertain and NWM Group can give no assurance as to the full impact of such transactions on its go-forward results of operations. As a result, NWM Group's business, results of operations and outlook could be adversely affected.

NWM Group's ability to serve its customers may be diminished by the changed business strategy as a result of the NWM Refocusing. In addition, customer reactions to the changed nature of NWM Group's business model may be more adverse than expected and previously anticipated revenue and profitability levels (including, for example, in relation to income from the Rates business) may not be achieved in the timescale envisaged or at all. An adverse macroeconomic environment, including due to the COVID-19 pandemic, heightened inflation and rising interest rates, continued political and regulatory uncertainty, market volatility and/or strong market competition may also pose significant challenges to the achievement of the anticipated targets and goals of the NWM Refocusing.

As part of the NWM Refocusing, NWM Group has accepted a number of financial, capital and operational targets and expectations, which entail further reductions to its wider cost base. In addition to requiring cost reductions within NWM Group, this could affect the cost and scope of NatWest Group's provision of services to NWM Group, which individually or collectively may impact NWM Group's competitive position and its ability to meet its other targets.

The financial, operational and capital targets and expectations envisaged by the NWM Refocusing may not be met or maintained in the timeframes expected or at all. In addition, targets and expectations for NWM Group are based on management plans, projections and models, and are subject to a number of key assumptions and judgments, any of which may prove to be inaccurate. The significant scale and scope of the changes implemented (and those that remain to be implemented) as a result of the NWM Refocusing may continue to entail operational, IT system, culture, conduct, business and financial risks to NWM Group.

The NWM Refocusing requires NWM Group to meet cost reduction targets, including through head-count reductions and redirecting investment from certain business areas to others, which could affect NWM Group's long-term prospects, product offering or competitive position and its ability to meet its other targets and commitments. A significant proportion of the cost savings are dependent on simplification of the IT systems and therefore may not be realised in full if IT capabilities are not delivered in line with assumptions. These risks are expected to continue to last for at least the medium term.

The NWM Refocusing is expected to result in, and the refocused NWM Group continues to face, increased people risk through the loss of key staff, the recalibration of roles and loss of institutional knowledge. This, combined with the prolonged COVID-19 pandemic, continues to impact NWM Group's culture and morale. The remaining parts of the NWM Refocusing and other structural changes may continue to be resource-intensive and disruptive, and may divert management resources. In addition, the scale of changes that have been concurrently implemented require the implementation and application of robust governance and controls frameworks and robust IT systems. There is a risk that NWM Group may not be successful in maintaining such governance and control frameworks and IT systems. Moreover, whether the NWM Refocusing and further structural changes are successful will depend on how the NWM resulting business is perceived by NWM Group's customers, regulators, rating agencies, stakeholders and the wider market, how it impacts its business, and NWM Group's ability to retain employees required to deliver its go-forward strategic priorities.

NWM Group has implemented a shared services model and entered into revenue share agreements with some entities within NatWest Group's ring-fenced sub-group (including NatWest Bank Plc, The Royal Bank of Scotland Plc and Ulster Bank Ireland DAC). NWM Group therefore relies directly or indirectly on NatWest Group entities to provide services to itself and its clients. A failure of NWM Group to receive these services (on a cost-effective basis or at all) may result in operational risk. See, '*Operational risks (including reliance on third party suppliers and outsourcing of certain activities) are inherent in NWM Group's businesses*'.

The changed nature of NWM Group's business may also adversely affect the credit rating assigned to NWM Plc and certain of its subsidiaries (including NWM NV) or any of their respective debt securities, which could adversely affect the availability and cost of funding for NWM Group and negatively impact NWM Group's liquidity position.

Each of the risks identified in this risk factor, individually or collectively could adversely impact NWM Group's products and services offering or office locations, reputation with customers or business model and adversely impact NWM Group's ability to deliver its strategy and the anticipated benefits thereof and meet its targets and guidance. Any of the above could in turn have a material adverse effect on NWM Group's business, results of operations and outlook.

While NWM Group has made substantial progress in implementing the NWM Refocusing, aspects of the NWM Refocusing and other structural changes that are still to be implemented entail further execution, commercial, operational and other risks. As a result, there is a risk that the NWM Refocusing and other structural change may not be successful, or that the business resulting from the NWM Refocussing and other structural changes may not be a viable, competitive or profitable business.

Trends relating to the COVID-19 pandemic may adversely affect NWM Group's strategy and impair its ability to meet its targets and strategic objectives.

The trajectory of the COVID-19 pandemic's impact on the UK and global economy and NWM Group remain uncertain. If trends relating to the COVID-19 pandemic negatively impact the UK and global economy, NWM Group may be unable to meet its financial, capital and operational targets and expectations.

Whilst NWM Group, as part of NatWest Group, remains committed to its cost reduction targets, achieving the planned reductions in an environment affected by the COVID-19 pandemic may be more challenging and may require additional savings to be made in a manner that may increase certain operational risks and could impact productivity and competitiveness within NWM Group and which may have an adverse effect on NWM Group.

It is uncertain as to how the broader macroeconomic business environment and societal norms may be impacted by the COVID-19 pandemic, causing significant wider societal changes. For example, one of the most notable effects of the COVID-19 pandemic has been its disproportionate impact on the most vulnerable groups of society and concerns about systemic racial biases and social inequalities.

In addition, the COVID-19 pandemic has accelerated existing economic trends that may radically change the way businesses are run and people live their lives. These trends include digitalisation, decarbonisation, automation, e-commerce and agile working, each of which has resulted in significant market volatility in asset prices. There is also increased investor, regulatory and customer scrutiny regarding how businesses address these changes and related climate, environmental, social, governance 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. Any failure or delay by NWM Group to successfully adapt its business strategy and to establish and maintain effective governance, procedures, systems and controls in response to these changes, and to manage emerging climate, environmental, social and other sustainability-related risks and opportunities, may have a material adverse impact on NWM Group's reputation, business, results of operations, outlook and the value of NWM Group's securities. See also, '*— Any failure by NWM Group to implement effective and compliant climate change resilient systems, controls and procedures could adversely affect NWM Group's ability to manage climate-related risks* ' and '*— A failure to adapt NWM Group's business strategy, governance, procedures, systems and controls to manage emerging sustainability-related risks and opportunities may have a material adverse effect on NWM Group, its reputation, business, results of operations and outlook*'.

The COVID-19 pandemic may also result in unexpected developments or changes in financial markets, the fiscal, tax and regulatory frameworks and consumer customer and corporate client behaviour, which could intensify competition in the financial services industry. This could negatively impact NWM Group if it is not able to adapt or compete effectively.

Financial resilience risk

NWM Group may not meet the targets it communicates, generate returns or implement its strategy effectively.

As part of NatWest Group's purpose-led strategy and the NWM Refocusing, NWM Group has set a number of internal and external financial, capital and operational targets including in respect of: balance sheet and cost reductions, CET1 ratio targets (for NWM Plc and NWM N.V.), MREL targets, leverage ratio targets (for NWM Plc and NWM N.V.), targets in relation to local regulation, funding plans and requirements, employee engagement, diversity and inclusion as well as ESG (including climate and sustainable funding and financing targets) and customer satisfaction targets.

NWM Group's ability to meet its targets and to successfully implement its strategy is subject to various internal and external factors and risks. These include but are not limited to, the impact of the COVID-19 pandemic, client and staff behaviour and actions, market, regulatory, economic and political factors, developments relating to litigation, governmental actions, investigations and regulatory matters, and operational risks and risks relating to NWM Group's business model and strategy (including risks associated with climate, environmental, social, governance and other sustainability-related issues) and the NWM Refocusing. See also, '*NWM Group has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy (including the NWM Refocusing) and may continue to be subject to significant structural and other change*'.

A number of factors, including the economic and other effects of the COVID-19 pandemic, may impact NWM Plc and NWM NV's ability to maintain their current CET1 ratio targets, including impairments, the extent of organic capital generation or the reduction of RWAs. NWM Plc may incur disposal losses as part of the process of exiting positions to reduce RWAs. Some of these losses may be recognised ahead of the actual disposals and the losses overall may be higher than currently anticipated.

NWM Group's ability to meet its planned reductions in annual costs may vary considerably from year to year. Furthermore, the focus on meeting balance sheet and cost reduction targets may result in limited investment in other areas which could affect NWM Group's long-term product offering or competitive position and its ability to meet its other targets, including those related to customer satisfaction.

In addition, challenging trading conditions may have an adverse impact on NWM Group's business and may adversely affect its ability to achieve its targets and execute its strategy.

There is a risk that NWM Group's strategy may not be successfully executed, that it will not meet its targets and expectations, or that it will not be a viable, competitive or profitable banking business.

NWM Plc and/or its regulated subsidiaries may not meet the prudential regulatory requirements for capital.

NWM 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 NWM Group with financial flexibility in the face of turbulence and uncertainty in the global economy and specifically in its core UK operations.

NWM Plc's target CET1 ratio is based on regulatory requirements, internal modelling and risk appetite (including under stress). NWM NV's target CET1 ratio is based on expected regulatory requirements, internal modelling and risk appetite (including under stress). As at 31 December 2021, NWM Plc's solo CET1 ratio was 17.9%. NWM Plc's current capital strategy is based on the management of RWAs and other capital management initiatives (including the reduction of RWAs and the periodic payment of dividends to NatWest Group plc, NWM Plc's parent company).

Other factors that could influence NWM Plc and NWM NV's CET1 ratios include, amongst other things (See also, '*NWM Group has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy (including the NWM Refocusing) and may continue to be subject to significant structural and other change*'):

- a depletion of NWM Plc or NWM NV's capital resources through losses (which would in turn impact retained earnings) and may result from revenue attrition or increased liabilities, sustained periods of low interest rates, reduced asset values resulting in write-downs or reserve adjustments, impairments, changes in accounting policy, accounting charges or foreign exchange movements;

- a change in the quantum of NWM Plc's or NWM NV's RWAs, stemming from exceeding target RWA levels, the NWM Refocusing, regulatory adjustments (for example, from additional market risk backtesting exceptions), foreign exchange movements or a failure in internal controls or procedures to accurately measure and report RWAs. An increase in RWAs would lead to a reduction in the CET1 ratio (and increase the amount of internal MREL required for NWM Plc);
- changes in prudential regulatory requirements including the Total Capital Requirement for NWM Plc (as regulated by the Prudential Regulation Authority ('PRA')) or NWM NV (as regulated by the De Nederlandsche Bank ('DNB')), including Pillar 2 requirements and regulatory buffers as well as any applicable scalars;
- further developments of prudential regulation (for example, finalisation of Basel 3 standards), which will impact various areas including the approach to calculating credit risk, market risk, leverage ratio, capital floors and operational risk RWAs, as well as continued regulatory uncertainty on the details thereto;
- further losses (including as a result of extreme one-off incidents such as cyberattack, fraud or conduct issues) would deplete capital resources and place downward pressure on the CET1 ratio; or
- the timing of planned liquidation, disposal and/or capital releases of capital optimisation activity or legacy entities owned by NWM Plc and NWM NV

Management actions taken under a stress scenario may affect, among other things, NWM Group's product offering, its credit ratings, its ability to operate its businesses and pursue its current strategies and strategic opportunities, any of which may negatively impact investor confidence and the value of NWM Group's securities. See also, '*— NWM Plc and/or its regulated subsidiaries may not manage their capital, liquidity or funding effectively which could trigger the execution of certain management actions or recovery options*' and '*NatWest Group (including NWM Group) may become subject to the application of UK statutory stabilisation or resolution powers which may result in, among other actions, the write-down or conversion of NWM Group entities' Eligible Liabilities*'.

NWM Group is reliant on access to the capital markets to meet its funding requirements, both directly through wholesale markets, and indirectly through its parent (NatWest Group) for the subscription to its internal capital and MREL. The inability to do so may adversely affect NWM Group.

NatWest Markets Plc's funding plan currently anticipates that in 2022, it will issue £4-5 billion of public benchmark issuance in order to meet its near-term debt refinancing and funding requirements, based on its current and anticipated business activities. NWM Group therefore has significant anticipated funding requirements and is reliant on frequent access to the capital markets for funding, at a cost that can be passed through to its customers. Such access entails execution risk, regulatory risk, risk of reduced commercial activity, risk of loss of market confidence in the NWM Group if it cannot finance its activities and risk a ratings downgrade, which could be impeded by a number of internal or external factors, including, those referred to above in '*NWM Group faces continued economic and political risks and uncertainty in the UK and global markets* ', '*Continuing uncertainty regarding the effects and extent of the UK's post Brexit divergence from EU laws and regulation, and NWM Group's post Brexit EU operating model may continue to adversely affect NWM Group and its operating environment*', '*Any reduction in the credit rating and/or outlooks assigned to NatWest Group plc, any of its subsidiaries (including NWM Plc or NWM Group subsidiaries) or any of their respective debt securities could adversely affect the availability of funding for NWM Group, reduce NWM Group's liquidity position and increase the cost of funding*' and '*NWM Group is exposed to the risk of various litigation matters, regulatory and governmental actions and investigations as well as remedial undertakings, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on NWM Group*'.

In addition, NWM Plc receives capital and funding from NatWest Group plc. NWM Plc has set target levels for different tiers of capital and for the internal minimum requirements for own funds and eligible liabilities ('MREL'), as percentages of its RWAs. The level of capital and funding required for NWM Plc to meet its internal targets is therefore a function of the level of RWAs and its leverage exposure in NWM Plc and this may vary over time.

NWM Plc's internal MREL comprises the regulatory value of capital instruments and loss-absorbing senior funding issued by NWM Plc to its parent, NatWest Group plc, in all cases with a residual maturity of at least one year. The Bank of England has identified that the preferred resolution strategy for NatWest Group is as a single point of entry. As a result, only NatWest Group plc is able to issue Group MREL eligible liabilities to third-party investors, using the proceeds to fund the internal capital and MREL targets and/or requirements of its operating entities, including NWM Plc. NWM Plc is therefore dependent not only on NatWest Group plc to fund its internal capital targets, but also on NatWest Group plc's ability to source appropriate funding. NWM Plc is also dependent on NatWest Group plc to continue to fund NWM Plc's internal MREL targets over time and its ability to issue and maintain sufficient amounts of external MREL liabilities to support this. In turn, NWM Plc is required to fund the internal capital and MREL requirements of its subsidiaries.

Any inability of NWM Group to adequately access the capital markets, to manage its balance sheet in line with assumptions in its funding plans, or to issue internal capital and MREL may adversely affect NWM Group, such that NWM Group may not constitute a viable banking business and/or NWM Plc or NWM NV may fail to meet their respective regulatory capital and/or MREL requirements (at present, NWM NV does not yet have its own MREL requirements) (see also, '*The effects of the COVID-19 pandemic could affect NWM 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*').

NWM Group may not be able to adequately access sources of liquidity and funding.

NWM Group is required to access sources of liquidity and funding through deposits and wholesale funding, including debt capital markets and trading liabilities such as repurchase agreements. As at 31 December 2021, NWM Group held £4.1 billion in deposits from banks and customers. The level of deposits and wholesale funding may fluctuate due to factors outside NWM Group's control. These factors include: loss of investor confidence (including in individual NWM Group entities or the UK banking sector or the banking sector as a whole), sustained low or negative interest rates, government support, increasing competitive pressures for bank funding or the reduction or cessation of deposits and other funding by counterparties, any of which could result in a significant outflow of deposits or reduction in wholesale funding within a short period of time. See also, '*NWM Group has significant exposure to counterparty and borrower risk*'.

An inability to grow, roll-over, or any material decrease in, NWM Group's deposits, short-term wholesale funding and short-term liability financing could, particularly if accompanied by one of the other factors described above, materially affect NWM Group's ability to satisfy its liquidity needs.

NWM Group engages from time to time in 'fee based borrow' transactions whereby collateral (such as government bonds) is borrowed from counterparties on an unsecured basis in return for a fee. This borrowed collateral may be used by NWM Group to finance parts of its balance sheet, either in its repo financing business, derivatives portfolio or more generally across its balance sheet. If such 'fee based borrow' transactions are unwound whilst used to support the financing of parts of NWM Group balance sheet, then unsecured funding from other sources would be required to replace such financing. There is a risk that NWM Group would be unable to replace such financing on acceptable terms or at all, which could adversely affect its liquidity position and have an adverse effect on NWM Group. In addition, because 'fee base borrow' transactions are conducted off-balance sheet (due to the collateral being borrowed) investors may find it more difficult to gauge NWM Group's creditworthiness, which may be affected if these transactions were to be unwound in a stress scenario. Any lack of or perceived lack of creditworthiness may adversely affect NWM Group.

The effects of the COVID-19 pandemic, current economic uncertainties and any significant market volatility, could affect NWM 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, NWM Group and its subsidiaries could be required to adapt their funding plans. This could exacerbate funding and liquidity risk, which could have a negative effect on NWM Group.

As at 31 December 2021, NWM Group reported a liquidity coverage ratio of 205%. If its liquidity position were to come under stress and if NWM Group is unable to raise funds through deposits or wholesale funding sources on acceptable terms or at all, its liquidity position could be adversely affected. This would mean that NWM Group might be unable to: meet deposit withdrawals on demand or satisfy buy back requests, repay borrowings as they mature, meet its obligations under committed financing facilities, comply with regulatory funding requirements, undertake certain capital and/or debt management activities, or fund new loans, investments and businesses. NWM Group may need to liquidate unencumbered 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. This could also lead to higher funding costs and/or changes to NWM Group's funding plans. In a time of reduced liquidity or market stress, NWM Group may be unable to sell some of its assets or may need to sell assets at depressed prices, which in either case could negatively affect NWM Group's results.

NWM Group entities independently manage liquidity risk on a stand-alone basis, including through holding their own liquidity portfolios. They have restricted access to liquidity or funding from other NatWest Group entities. NWM Group entities' management of their own liquidity portfolios and the structure of capital support are subject to operational and execution risk.

The effects of the COVID-19 pandemic could affect NWM 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.

The COVID-19 pandemic has at times caused significant market volatility. Should further market volatility arise from COVID-19 pandemic-related uncertainties and the impact on capital and RWAs, NWM Group and its subsidiaries may be required to adapt their funding plans in order to satisfy their respective capital and funding requirements, which may have a negative impact on NWM Group. In addition, impairments or other losses as well as increases to capital deductions may result in a decrease to NWM Plc's capital base, and/or that of its subsidiaries. If NatWest Group Plc is unable to issue securities externally as planned, this may have a negative impact on NWM Plc's current and forecasted MREL position, particularly if NatWest Group plc is unable to downstream capital and/or funding to NWM Plc.

Furthermore, significant fluctuation in foreign currency exchange rates may affect capital deployed in NWM Plc's foreign subsidiaries, branches and joint arrangements, securities issued by NWM Plc and/or its subsidiaries in foreign currencies or the respective values of assets, liabilities, income, RWAs, capital base, expenses and reported earnings.

In addition, increased income as a result of higher levels of customer flow activity and balance sheet growth (as a result of increases in corporate deposits and derivative valuations) may not be sustained in the future. Furthermore, market volatility may result in increases to leverage exposure.

Any downgrading to the credit ratings and/or outlooks assigned to NWM Group, its subsidiaries and their respective debt securities as a result of the economic impact of the COVID-19 pandemic could exacerbate funding and liquidity risk, which could have a negative effect on NWM Group.

NWM Plc and/or its regulated subsidiaries may not manage their capital, liquidity or funding effectively which could trigger the execution of certain management actions or recovery options.

Under the EU Bank Recovery and Resolution Directives I and II ('BRRD'), as implemented in the UK, NatWest Group must maintain a recovery plan acceptable to its regulator, such that a breach of NWM Plc's applicable capital or leverage, liquidity or funding requirements would trigger consideration of NWM Plc's recovery plan, and in turn may prompt consideration of NatWest Group's recovery plan. If, under stressed conditions, the liquidity, capital or leverage ratio were to decline, there are a range of recovery management actions (focused on risk reduction and mitigation) that NWM Plc could undertake that may or may not be sufficient to restore adequate liquidity, capital and leverage ratios. Additional management options relating to existing capital issuances, asset or business disposals, capital payments and dividends from NWM Plc to its parent, could also be undertaken to support NWM Plc's capital and leverage requirements.

NatWest Group may also address a shortage of capital in NWM Plc by providing parental support to NWM Plc. NatWest Group's (and NWM Plc's) regulator may also request that NWM Group carry out additional capital management actions. The Bank of England has identified single point-of-entry as the preferred resolution strategy for NatWest Group. However, under certain conditions set forth in the BRRD, as the UK resolution authority, the Bank of England also has the power to execute the 'bail-in' of certain securities of NWM Group without further action at NatWest Group level.

Any capital management actions taken under a stress scenario may affect, among other things, NWM Group's product offering, credit ratings, ability to operate its businesses and pursue its current strategies and strategic opportunities as well as negatively impacting investor confidence and the value of NWM Group's securities. See also, '*— NatWest Group (including NWM Group) may become subject to the application of UK statutory stabilisation or resolution powers which may result in, among other actions, the write-down or conversion of NWM Group entities' Eligible Liabilities*'. In addition, if NWM Plc or NWM NV's liquidity position were to be adversely affected, this may require unencumbered assets to be liquidated or may result in higher funding costs, which may adversely impact NWM Group's operating performance.

Any reduction in the credit rating and/or outlooks assigned to NatWest Group plc, any of its subsidiaries (including NWM Plc or NWM Group subsidiaries) or any of their respective debt securities could adversely affect the availability of funding for NWM Group, reduce NWM Group's liquidity position and increase the cost of funding.

Rating agencies regularly review NatWest Group plc, NWM Plc and other NatWest Group entity credit ratings and outlooks, which could be negatively affected by a number of factors that can change over time, including: the credit rating agency's assessment of NWM 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 in which NWM Group operates; the implementation of structural reform; the legal and regulatory frameworks applicable to NWM 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 NWM Group's key markets (including the impact of the COVID-19 pandemic and any further Scottish independence referendum); any reduction of the UK's sovereign credit rating and market uncertainty.

In addition, credit ratings agencies are increasingly taking into account sustainability-related factors, including climate, environmental, social and governance related risk, as part of the credit ratings analysis, as are investors in their investment decisions.

Any reductions in the credit ratings of NatWest Group plc, NWM Plc or of certain other NatWest Group entities, including, in particular, downgrades below investment grade, or a deterioration in the capital markets' perception of NWM Group's financial resilience could significantly affect NWM Group's access to money markets, reduce the size of its deposit base and trigger additional collateral or other requirements in derivatives contracts and other secured funding arrangements or the need to amend such arrangements, which could adversely affect NWM Group's (and, in particular, NWM Plc's) cost of funding and its access to capital markets which could limit the range of counterparties willing to enter into transactions with NWM Group (and, in particular, with NWM Plc). This could in turn adversely impact NWM Group's competitive position and threaten its prospects in the short to medium-term.

NWM Group operates in markets that are highly competitive, with increasing competitive pressures and technology disruption.

The markets in which NWM Group operates are highly competitive, and competition may intensify in response to various changes. These include: evolving customer behaviour, technological changes (including digital currencies, stablecoins and the growth of digital banking, such as from fintech entrants), competitor behaviour, new entrants to the market, industry trends resulting in increased disaggregation or unbundling of financial services, the impact of regulatory actions and other factors. Innovations such as biometrics, artificial intelligence, the cloud, blockchain, cryptocurrencies and quantum computing may also rapidly facilitate industry transformation.

Increasingly many of the products and services offered by NWM Group are, and will become, more technology intensive. NWM Group's ability to develop such services (which also comply with applicable and evolving regulations) has become increasingly important to retaining and growing NWM Group's client businesses across its geographical footprint. There can be no certainty that NWM Group's innovation strategy (which includes investment in its IT capability intended to improve its core infrastructure and client interface capabilities as well as investments and partnerships with third party technology providers) will be successful or that it will allow NWM Group to continue to grow such services in the future.

In addition, certain of NWM Group's current or future competitors may be more successful in implementing innovative technologies for delivering products or services to their clients. These competitors may be better able to attract and retain clients and key employees, may have better IT systems, and may have access to lower cost funding and/or be able to attract deposits or provide investment-banking services on more favourable terms than NWM Group. Although NWM Group invests in new technologies and participates in industry and research-led initiatives aimed at developing new technologies, such investments may be insufficient or ineffective, especially given NWM Group's focus on its cost savings targets. This may limit additional investment in areas such as financial innovation and could therefore affect NWM Group's offering of innovative products or technologies for delivering products or services to clients and its competitive position. NWM 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. The development of innovative products depends on NWM Group's ability to produce underlying high quality data, failing which its ability to offer innovative products may be compromised.

If NWM 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 activities and lose opportunities for growth. In this context, NWM Group is investing in the automation of certain solutions and interactions within its customer-facing businesses, including through 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 NWM 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 NWM Group.

In addition, NatWest Group's purpose-led strategy, as well as employee remuneration constraints, may also have an impact on NWM Group's ability to compete effectively and intensified competition from incumbents, challengers and new entrants could affect NWM Group's ability to provide satisfactory returns. Moreover, activist investors have increasingly become engaged and interventionist in recent years, which may pose a threat to NatWest Group's strategic initiatives. Furthermore, continued consolidation or technological or other developments in certain sectors of the financial services industry could result in NWM 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. Any of the above may negatively affect NWM Group.

NWM Group may be adversely affected if NatWest Group fails to meet the requirements of regulatory stress tests.

NatWest Group is subject to annual stress tests by its regulator in the UK and is also subject to stress tests by European regulators with respect to NWM NV and Ulster Bank Ireland DAC. Stress tests are designed to assess the resilience of banks to potential adverse economic or financial developments and ensure that they have robust, forward-looking capital planning processes that account for the risks associated with their business profile. If the stress tests reveal that a bank's existing regulatory capital buffers are not sufficient to absorb the impact of the stress, then it is possible that NatWest Group and/or NWM Group may need to take action to strengthen their capital positions.

Failure by NatWest Group to meet its quantitative and qualitative requirements of the stress tests set forth by its UK regulators or those elsewhere may result in: NatWest Group's regulators requiring NatWest Group to generate additional capital, reputational damage, increased supervision and/or regulatory sanctions and/or loss of investor confidence.

The impact of the COVID-19 pandemic on the credit quality of NWM Group's counterparties may negatively impact NWM Group.

The effects of the COVID-19 pandemic have adversely affected the credit quality of some of NWM Group's borrowers and other counterparties, and government support schemes may delay the effects of defaults by such counterparties. As government support schemes reduce, defaults are expected to rise with more customers moving from IFRS 9 Stage 2 to Stage 3. As a result, NWM Group may continue to experience elevated exposure to credit risk and demands on its funding, and the long-term effects remain uncertain. If borrowers or counterparties face increasing levels of debt and default or suffer deterioration in credit, this increases impairment charges, write-downs, regulatory expected loss and impacts credit reserves. An increase in drawings upon committed credit facilities may also increase NWM Plc's and/or its subsidiaries' RWAs. If NWM Group experiences losses and a reduction in future profitability, this is likely to affect the recoverable value of fixed assets, including deferred taxes, which may lead to further write-downs.

Any of the above may have a negative impact on NWM Group.

NWM Group has significant exposure to counterparty and borrower risk.

NWM NV, a subsidiary of NWM Plc, has a portfolio of loans and loan commitments to Western European corporate customers. As a result, through the NWM NV business and NWM Group's other activities, NWM 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 NWM Group's businesses. These risks may be concentrated for those businesses for which client income is heavily weighted towards a specific geographic region, industry or client base. Furthermore, these risks increase due to the expected transfer of NatWest Group's Transfer Business from its ring-fenced subgroup to NWM Group (see '*NWM Group has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy (including the NWM Refocusing) and may continue to be subject to significant structural and other change*').

Credit risk may arise from a variety of business activities, including, but not limited to: extending credit to clients through various lending commitments; entering into swap or other derivative contracts under which counterparties have obligations to make payments to NWM Group (including un-collateralised derivatives); providing short or long-term funding that is secured by physical or financial collateral whose value may at times be insufficient to fully cover the loan repayment amount; posting margin and/or collateral and other commitments to clearing houses, clearing agencies, exchanges, banks, securities firms and other financial counterparties; and investing and trading in securities and loan pools, whereby the value of these assets may fluctuate based on realised or expected defaults on the underlying obligations or loans. See also, '*Risk and capital management — Credit Risk*'. Any negative developments in the activities listed above may negatively impact NWM Group's clients and credit exposures, which may, in turn, adversely impact NWM Group's profitability.

The credit quality of NWM Group's borrowers and other counterparties may be affected by a deterioration in prevailing economic and market conditions (including those caused by the COVID-19 pandemic) and by changes in the legal and regulatory landscape in the UK and countries where NWM Group is exposed to credit risk (including the extent of the UK's post-Brexit divergence from EU laws and regulation). These could worsen borrower and counterparty credit quality or impact the enforcement of contractual rights over security, increasing credit risk.

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 may lead to market-wide liquidity problems and losses for NWM Group. In addition, the value of collateral may be correlated with the probability of default by the relevant counterparty ('wrong way risk'), which would increase NWM Group's potential loss. This systemic risk may also adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which NWM Group interacts on a daily basis. See also, '*— NWM Group is reliant on access to the capital markets to meet its funding requirements, both directly through wholesale markets, and indirectly through its parent (NatWest Group) for the subscription to its internal capital and MREL. The inability to do so may adversely affect NWM Group*'.

As a result of the above, 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 NWM Group and an inability to engage in routine funding transactions.

NWM 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. See also, '*Risk and Capital Management — Credit Risk*'. The assumptions and judgments used in the MES and ECL assessment at 31 December 2021 may not prove to be adequate resulting in incremental ECL provisions for the NWM Group. As government support schemes reduce, defaults are expected to rise with more ECLs cases moving from Stage 2 to Stage 3.

NWM 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). Due to NWM Group's exposure to the financial industry, it also has exposure to shadow banking entities (i.e., entities which carry out banking activities outside a regulated framework). NWM 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 NWM 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 the business, results of operations and outlook of NWM Group.

NWM Group could incur losses or be required to maintain higher levels of capital as a result of limitations or failure of various models.

Given the complexity of NWM Group's business, strategy and capital requirements, NWM Group relies on analytical and other models for a wide range of purposes, including to manage its business, assess the value of its assets and its risk exposure, as well as to anticipate capital and funding requirements (including to facilitate NatWest Group's mandated stress testing). In addition, NWM 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')). NWM Group's models, and the parameters and assumptions on which they are based, are periodically reviewed and updated to maximise their accuracy.

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 NWM Group operates (for example to account for the impact of the COVID-19 pandemic), to capture risks and exposures at the subsidiary level, and to update for changes to NWM Group's current business model or operations, or for findings of deficiencies by NatWest Group (and in particular, NWM 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 NWM Group to regulatory sanction. NWM 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.

NWM 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).

The accounting policies deemed critical to NWM Group's results and financial position, based upon materiality and significant judgments and estimates, which include loan impairment provisions, are set out in '*Critical accounting policies and key sources of estimation uncertainty*'. New accounting standards and interpretations that have been issued by the International Accounting Standards Board but which have not yet been adopted by NWM Group are discussed in '*Future Accounting Developments*'.

Changes in accounting standards may materially impact NWM Group's financial results.

Changes in accounting standards or guidance by accounting bodies or in the timing of their implementation, whether immediate or foreseeable, could result in NWM Group having to recognise additional liabilities on its balance sheet, or in further write-downs or impairments to its assets and could also significantly impact the financial results, condition and prospects of NWM Group.

NWM Group's trading assets amounted to £59.1 billion as at 31 December 2021. The valuation of financial instruments, including derivatives, measured at fair value can be subjective, in particular where models are used which include unobservable inputs.

Generally, to establish the fair value of these instruments, NWM Group relies on quoted market prices or, where the market for a financial instrument is not sufficiently credible, internal valuation models that utilise observable market data. In certain circumstances, the data for individual financial instruments or classes of financial instruments utilised by such valuation models may not be available or may become unavailable due to prevailing market conditions. In these circumstances, NWM Group's internal valuation models require NWM Group to make assumptions, judgments and estimates to establish fair value, which are complex and often relate to matters that are inherently uncertain. Any of these factors could require NWM Group to recognise fair value losses which may have an adverse effect on NWM Group's income generation and financial position.

NatWest Group (including NWM Group) may become subject to the application of UK statutory stabilisation or resolution powers which may result in, among other actions, the write-down or conversion of NWM Group entities' Eligible Liabilities.

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 ('Eligible Liabilities'); and (v) temporary public ownership of the relevant entity. These tools may be applied to NatWest Group plc as the parent company or to NWM Group, as 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. Similar powers may also be exercised with respect to NWM NV in the Netherlands by the relevant Dutch regulatory authorities.

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 (which provides that creditors' losses in resolution should not exceed those that would have been realised in an insolvency of the relevant institution) 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 of NatWest Group (including NWM Group), which may depend on factors outside of NWM Group's control. Moreover, the Banking Act provisions remain untested in practice.

If NatWest Group is at or is approaching the point of non-viability such that regulatory intervention is required, there may correspondingly be an adverse effect on the business, results of operations and outlook of NWM Group.

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 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. The initial report was submitted to the PRA on 30 September 2021 and the Bank of England's assessment of NatWest Group's preparations is scheduled to be released on 10 June 2022 although the Bank of England may provide feedback before then.

NatWest Group has dedicated significant resources towards the preparation of NatWest Group for a potential resolution scenario. However, if the Bank of England assessment identifies a significant gap in NatWest Group's ability to achieve the resolvability outcomes, or reveals that NatWest Group is not adequately prepared to be resolved, or did not have adequate plans in place to meet resolvability requirements which came into effect on 1 January 2022, NatWest Group may be required to take action to enhance its preparations to be resolvable, resulting in additional cost and the dedication of additional resources. These actions may have an impact on NatWest Group (and NWM Group) as, depending on the Bank of England's assessment, potential action may include, but is not limited to, resulting in restrictions on maximum individual and aggregate exposures, a requirement to dispose of specified assets, a requirement to change legal or operational structure, a requirement to cease carrying out certain activities and/or maintaining a specified amount of MREL. This may also impact NatWest Group's (and NWM Group's) strategic plans and have an adverse effect on the financial position of NWM Group or may result in reputational damage and/or loss of investor confidence.

Climate and sustainability-related risks

NWM Group and its customers face significant climate-related risks, including in transitioning to a net zero economy, which may adversely impact NWM Group.

Climate-related risks and uncertainties are continuing to receive increasing regulatory, judicial, political and societal scrutiny.

Financial and non-financial risks from climate change arise through physical and transition risks. Furthermore, NWM Group may also face a variety of climate-related legal risks, both physical and transition, from potential litigation and conduct liability. See also, '*NWM Group may be subject to potential climate, environmental and other sustainability-related litigation, enforcement proceedings, investigations and conduct risk*'.

There are significant uncertainties as to the extent and timing of the manifestation of the physical risks of climate change, such as more severe and frequent extreme weather events, (flooding, subsidence, heat waves and long-lasting wildfires), rising sea levels, biodiversity loss and resource scarcity. Damage to NWM customers' 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 NWM Group's portfolios. In addition, NWM Group premises and operations, or those of its critical outsourced functions may experience damage or disruption leading to increased costs and negatively affecting NatWest Group's business continuity and reputation.

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. The timing, content and implementation of the specific policies and proposals remain uncertain. Widespread transition to a net zero economy across all sectors of the economy and markets in which NWM Group operates will be required to meet the goals of the 2015 Paris Agreement, the UK's Net Zero Strategy and the Glasgow Climate Pact of 2021. The impact of the extensive commercial, technological, policy and regulatory changes required to achieve transition remains uncertain, but it is expected to be significant 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 oil and gas), mining, infrastructure, transport (including automotive and aviation) and agriculture are expected to be particularly impacted. The timing and pace of the transition to a net zero economy is also uncertain and may be near term, gradual and orderly or delayed, rapid and disorderly, or the combination of these.

Climate-related risks may be drivers of several different risk categories simultaneously and may exacerbate existing risks, including credit risk, operational risk (business continuity), market risk (both traded and non-traded), liquidity and funding risk (for example, net cash outflows or depletion of liquidity buffers).

If NWM Group fails, to adapt its business and operating model in a timely manner to the climate-related risks and opportunities and changing regulatory and market expectations, or to appropriately identify, measure, manage and mitigate climate change related physical, transition and legal risks and opportunities that NWM Group, its customers and value chain face, NWM Group's reputation, business, operations or value chain and results of operations and outlook may be impacted adversely.

NatWest Group's purpose-led strategy includes climate change as one of its three areas of focus. This is likely to require material changes to the business and operating model of NWM Group which entails significant execution risk.

In February 2020, NatWest Group announced its ambition to become a leading bank on climate in the UK, helping to address the climate challenge by setting itself the challenge to at least halve the climate impact of its financing activity by 2030 and intending to do what is necessary to achieve alignment with the 2015 Paris Agreement. In addition, in April 2021, NatWest Group by joining the Net Zero Banking Alliance 'Business Ambition to 1.5C', stated its ambition to reach net zero by 2050. Furthermore, as part of its efforts to support the transition to a net zero economy, NatWest Group has also announced its ambitions 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; to plan to stop financing new customer relationships with corporate customers who explore for, extract or produce coal or operate unabated coal powered plants; and that it would not provide services to existing customers who are increasing coal mining activity by exploring for new coal, developing new coal mines or increasing thermal coal production.

To achieve its 2030 and 2050 ambitions, NatWest Group has also announced other climate ambitions, targets and commitments, and going-forward it may also announce other climate ambitions, targets and commitments, including science-based targets to be validated by the Science Based Target Initiative.

Making the changes necessary to achieving these ambitions may materially affect NWM Group's business and operations and may require significant reductions to its financed emissions and to its exposure to customers that do not align with a transition to a net zero economy or do not have a credible transition plan. Increases in lending and financing activities may wholly or partially offset some or all of 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-related risks and other regulatory, policy and market changes, are likely to necessitate material and accelerated changes to NWM Group's business, operating model and existing exposures (potentially on accelerated timescales and outside of risk appetite) which may have a material adverse effect on NWM Group's ability to achieve its financial targets and generate sustainable returns.

NWM Group's ability to contribute to achieving NatWest Group's climate-related ambitions, targets and commitments through its own specific targets will depend to a large extent on many factors and uncertainties beyond NWM Group's control. These include the macroeconomic environment, the extent and pace of climate change, including the timing and manifestation of physical and transition risks, the effectiveness of actions of governments, legislators, regulators, businesses, investors, customers and other stakeholders to adapt and/or mitigate the impact of climate-related risks, changes in customer behaviour and demand, the challenges related with the implementation and integration of adoption policy tools, changes in the available technology for mitigation and adaptation, the availability of accurate, verifiable, reliable, consistent and comparable data. See also, '*NatWest Group's purpose-led strategy includes climate change as one of its three areas of focus. This is likely to require material changes to the business and operating model of NWM Group which entails significant execution risk*' and '*There are significant challenges in relation to climate-related data due to quality and other limitations, lack of standardisation, consistency and incompleteness which amongst other factors contribute to the significant uncertainties inherent in accurately modelling the impact of climate-related risks*'.

These internal and external factors and uncertainties will make it challenging for NatWest Group to meet its climate ambitions, targets and commitments and for NWM Group to contribute to these and there is a significant risk that all or some of them will not be achieved.

Any delay or failure by NWM Group's to contribute to setting, making progress against or meeting NatWest Group's climate-related ambitions, targets and commitments through its own specific targets may have a material adverse impact on NWM Group, its reputation, business, results of operations, outlook, market and competitive position and may increase the climate-related risks NWM Group faces.

Any failure by NWM Group to implement effective and compliant climate change resilient systems, controls and procedures could adversely affect NWM Group's ability to manage climate-related risks.

The prudential regulation of climate-related risks is an important driver in how NWM Group develops its risk appetite for financing activities or engaging with counterparties that do not align with a transition to a net zero economy or do not have a credible transition plan.

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 (the '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.

Following the submission of initial plans by UK banks in October 2019, in July 2020 the PRA issued a 'Dear CEO' letter requiring firms to embed fully their approaches to managing climate-related financial risks by the end of 2021. In response, 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 NatWest Group's original plan and, as a result, the updated plan would require additional operating cycles reaching into 2022 and beyond to prove embedding. Subsequently the PRA issued its 'Climate Change Adaptation Report' in October 2021 advising firms of the need to continue to refine and innovate ways to further integrate the financial risks from climate change within risk management practices and it restated that by the end of 2021, firms should be able to demonstrate that the expectations set out in SS3/19 have been implemented and embedded throughout the firms' organisation as fully as possible. In January 2022, NatWest Group provided the PRA with an update on how it has addressed the commitments made in its October 2020 plan, noting the delivery of a 1st generation, largely qualitative in nature, approach to supervisory requirements.

In June 2021, the Bank of England launched its 2021 Biennial Exploratory Scenario ('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 CBES submission to the PRA in October 2021. The Bank of England has since announced that the CBES is likely to include a second round over February and March 2022, which is likely to be largely qualitative in nature.

The Bank of England guidance for the CBES confirmed that it is exploratory in nature and not intended to be used to set capital requirements. In the aforementioned 'Climate Change Adaptation Report 2021', the Bank of England confirmed that over the coming year it will undertake further analysis to explore enhancements to the regulatory capital frameworks as they relate to climate related financial risk. To support this work, the Bank of England will put out a 'Call for Papers' and host a Research Conference on the interaction between climate change and capital in Q4 2022. Informed by these steps and internal analysis, the Bank of England is expected to publish a follow-up report on the use of capital including on the role of any future scenario exercises by the end of 2022. It is therefore likely that in the coming years financial institutions, including NatWest Group (including NWM Group), may be required to hold additional capital to enhance their resilience against systemic and/or institution specific vulnerabilities to climate-related financial risks, which could, in turn, negatively impact NWM Group.

Any failure of NWM 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 have a material and adverse impact on NWM Group's regulatory compliance, prudential capital requirements, liquidity position, reputation, business, results of operations and outlook.

There are significant challenges in relation to climate-related data due to quality and other limitations, lack of standardisation, consistency and incompleteness which amongst other factors contribute to the significant uncertainties inherent in accurately modelling the impact of climate-related risks.

Meaningful reporting of climate-related risks and opportunities and their potential impacts and related metrics depend on access to accurate, reliable, consistent and comparable climate-related data from counterparties or customers. These may not be generally available or, if available, may not be accurate, verifiable, reliable, consistent, or comparable. Any failure of NWM Group to incorporate climate-related factors into its counterparty and customer data sourcing and accompanying analytics, or to develop accurate, reliable, consistent and comparable counterparty and customer data, may have a material adverse impact on NWM Group's ability to prepare meaningful reporting of climate-related risks and opportunities, its regulatory compliance, reputation, business and its competitive position.

In the absence of other sources, reporting of financed emissions by financial institutions, including NWM Group, is necessarily based therefore on aggregated information developed by third parties that may be prepared in an inconsistent way using different methodologies, interpretations, or assumptions. Accordingly, our climate-related disclosures use a greater number and level of assumptions and estimates than many of our financial disclosures. These assumptions and estimates are highly likely to change over time, and, when coupled with the longer time frames used in these climate 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, particularly for private companies, that are filled using proxy data, such as sectoral averages, again developed in different ways. As a result, our climate related disclosures may be amended, updated or restated in the future as the quality and completeness of our data and methodologies continue to improve. These data quality challenges, gaps and limitations could have a material impact on NWM Group's ability to make effective business decisions about climate risks and opportunities, including risk management decisions, comply with disclosure requirements and our ability to monitor and report our progress in meeting our ambitions, targets and commitments.

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, the pace at which climate science, greenhouse gas accounting standards and various emissions reduction solutions develop. In addition, there is a significant uncertainty about how climate change and the transition to a net zero economy will unfold over the coming decades and affect how and when climate-related risks will manifest. These timeframes are considerably longer than NWM 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, they rather 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 NWM 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 the impact of 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 emissions reductions targets and pathways, inherently more uncertain than outputs modelled for traditional financial planning cycles based on historical financial information.

Capabilities within NWM Group to appropriately assess, model and manage climate-related risks and the suitability of the assumptions required to model and manage climate-related risks appropriately are developing. 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 impact on NWM Group's regulatory compliance, reputation, business, results of operations and outlook.

A failure to adapt NWM Group's business strategy, governance, procedures, systems and controls to manage emerging sustainability-related risks and opportunities may have a material adverse effect on NWM Group, its reputation, business, results of operations and outlook.

Investors, customers, international organisations, regulators and other stakeholders are increasingly focusing on identification, measurement, management and mitigation of 'sustainability-related' risks and opportunities such as environmental (including biodiversity and loss of natural capital); social (including diversity and inclusion, the living wage, fair taxation and value chains); and governance (including board diversity, ethics, executive compensation and management structure) related risks and opportunities and on long term sustainable value creation.

Financial institutions, including NWM Group, are directly and indirectly exposed to multiple types of environmental and biodiversity-related risk through their activities, including risk of default by clients. Additionally, there is a growing need to move from safeguards and interventions that focus on reducing negative impacts on environment and biodiversity towards those that focus on increasing positive impact on environment and biodiversity and nature-based solutions. In 2021, NatWest Group (including NWM Group) accordingly classified 'Biodiversity and Nature Loss' as an emerging risk for NatWest Group (including NWM Group) within its Risk Management Framework. This is an evolving and complex area which requires collaborative approaches with partners, stakeholders and peers to help measure and mitigate negative impacts of financing activities on the environment, biodiversity and nature as well as supporting the growing sector of nature-based solutions, habitat restoration and biodiversity markets. NatWest Group, including NWM Group, is in the early stages of developing its approach and NatWest Group, including NWM Group, recognises the need for more progress.

There is also increased investor, regulatory and customer scrutiny 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 NWM Group's employees, customers, and their business activities or the communities in which they operate. There is also growing attention on the need for a 'just transition' and "energy justice" – in recognition that the transition to a net zero economy should not disproportionally affect the most disadvantaged members of society. The increased focus on these issues may create reputational and other risks for financial institutions, including NWM Group. In addition to climate-related risks, sustainability-related risks (i) may also adversely affect economic activity, asset pricing and valuations of issuers' securities and, in turn, the wider financial system; (ii) may impact economic activities directly (for example through lower corporate profitability or the devaluation of assets) or indirectly (for example through macro-financial changes); (iii) may also affect the viability or resilience of business models over the medium to longer term, particularly those business models most vulnerable to sustainability-related risks; (iv) can trigger further losses stemming directly or indirectly from legal claims (liability risks) and reputational damage as a result of the public, customers, counterparties and/or investors associating the NWM Group or its customers with adverse sustainability-related issues; and (v) intersect with and further complexity and challenge to achieving our purpose-led strategy including climate ambitions, targets and commitments. Together with climate-related risks, these risks may combine to generate even greater adverse effects on our business.

Furthermore, sustainability-related risks may be drivers of several different risk categories simultaneously and may exacerbate the risks described herein, including credit risk, operational risk (business continuity), market risk (both traded and non-traded), liquidity and funding risk (for example, net cash outflows or depletion of liquidity buffers).

Accordingly, any failure or delay by NWM Group to successfully adapt its business strategy and to establish and maintain effective governance, procedures, systems and controls in response to these issues, and to manage these emerging sustainability-related risks and opportunities may have a material adverse impact NWM Group's reputation, liquidity position, business, results of operations, outlook and the value of NWM Group's securities.

Any reduction in the ESG ratings of NatWest Group (including NWM Group) or NWM Group could have a negative impact on NatWest Group's (including NWM Group) or NWM Group's reputation and on investors' risk appetite and customers' willingness to deal with NatWest Group (including NWM Group) or NWM Group.

ESG ratings from agencies and data providers which rate how NatWest Group (including NWM Group) or NWM Group manage environmental, social and governance risks are increasingly influencing investment decisions or being used as a basis to label financial products and services as green 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 (including NWM Group) or NWM Group by the relevant rating agency; and (v) may depend on many factors some of which are beyond NatWest Group's and/or NWM Group's control (e.g. any change in rating methodology). Any reduction in the ESG ratings of NatWest Group (including NWM Group) could have a negative impact on NWM Group's reputation and could influence investors' risk appetite for NWM Group's and/or its subsidiaries' securities, particularly ESG securities and could affect a customer's willingness to deal with NWM Group.

Increasing levels of climate, environmental and sustainability-related laws, regulation and oversight may adversely affect NWM Group's business and expose NWM Group to increased costs of compliance, regulatory sanction and reputational damage.

There are an increasing number of EU, UK and other regulatory and legislative initiatives to address issues around climate, environmental and sustainability risks and opportunities and to promote the transition to a net zero economy. As a result, an increasing number of laws, regulations, legislative actions are likely to affect the financial sector and the real economy, including proposals, guidance, policy and regulatory initiatives many of which have been introduced or amended recently and are subject to further changes.

Many of these initiatives are focused on developing standardized definitions 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 NWM Group and its associated credit, market and financial risk profile. They could also impact NWM Group's recognition of its climate and sustainable funding and financing activity and may adversely affect NWM Group's ability to achieve its climate strategy and climate and sustainable funding and financing ambitions.

In addition, NatWest Group and its subsidiaries are and will be subject to increasing entity wide climate-related and other non-financial disclosure requirements. pursuant to the recommendations of the Task Force on Climate-related Financial Disclosure ('TCFD') and under other regimes. From February 2022, NatWest Group will be required to provide enhanced climate-related disclosures consistent with the TCFD recommendations to comply with the FCA Policy Statement on the new Listing Rules (PS 20/17) 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. The FCA is proposing to expand this requirement to a wider scope of listed issuers which would include NatWest Group' subsidiaries – including NWM Group - as it moves towards mandatory TCFD reporting across the UK economy by 2025 (See also, '*There are significant challenges in relation to climate-related data due to quality and other limitations, lack of standardisation, consistency and incompleteness which amongst other factors contribute to the significant uncertainties inherent in accurately modelling the impact of climate-related risks.*')

In addition, NWM Group's EU subsidiaries and branches are and will continue to be subject to an increasing array of the EU/EEA climate and sustainability-related legal and regulatory requirements. These requirements may be used as the basis for UK laws and regulations (such as the UK Green Taxonomy) or regarded by investors and regulators as best practice standards whether or not they apply to UK businesses. Any divergence between UK, EU/EEA and US climate and sustainability-related legal and regulatory requirements may result in NWM Group not meeting investors' expectations, may increase the cost of doing business and may restrict access of NWM Group's UK business to the EU/EEA market.

NatWest Group (including NWM 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 requirements is likely to require NWM Group to implement significant changes to its business models, product 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, entail additional change risk and compliance costs.

Failure to implement and comply with these legal and regulatory requirements or emerging best practice expectations may have a material adverse effect on NWM Group's regulatory compliance and may result in regulatory sanction, reputational damage and investor disapproval each of which could have an adverse effect on NWM Group's business, results of operations and outlook.

NWM Group may be subject to potential climate, environmental and other sustainability-related litigation, enforcement proceedings, investigations, and conduct risk.

Due to increasing new climate and sustainability-related jurisprudence, laws and regulations in the UK and other jurisdictions, growing demand from investors and customers for environmentally sustainable products and services, and regulatory scrutiny, financial institutions, including NWM Group, may through their business activities face increasing litigation, conduct, enforcement and contract liability risks related to climate change, environmental degradation and other social, governance and sustainability-related issues.

These risks may arise, for example, from claims pertaining to: (i) failures to meet obligations, targets or commitments relating to or to disclose accurately or provide updates on material climate and/or sustainability related risks or otherwise provide appropriate disclosure to investors, customers, counterparties and other stakeholders; (ii) conduct, mis-selling and other customer protection type claims; (iii) marketing that portrays products, securities, activities or policies as producing positive climate, environmental or sustainable outcomes to an extent that may not the case; (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' fiduciary duties, for example by financing various carbon-intensive, environmentally harmful or otherwise highly exposed assets, companies, and industries; (vi) changes in 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; (vi) any weaknesses or failures in specific systems or processes associated particularly with climate, environmental or sustainability linked products, including any failure in timely implementation, onboarding and/or updating of such systems or processes; or (vii) counterparties, collaborators and third parties in NWM Group's value chain action who act, or fail to act or undertake due diligence or apply appropriate risk management and product governance in a manner that impacts 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 NWM Group for financing or contributing to climate change and environmental degradation 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 climate science develops and societal understanding of climate science increases and deepens, courts, regulators and enforcement authorities may apply the then current understandings of climate related matters retrospectively when assessing claims about historic conduct or dealings of financial institutions, including NWM 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 they could have an adverse effect on NWM Group's reputation, business, financial results, position and prospects, 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 NWM Group's businesses.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, procedures, people or systems, or from external events, including legal risks. NWM 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 financial crime and fraud), for which there is now greater scrutiny by third parties on NWM Group's compliance with financial crime requirements; see '*NWM Group is exposed to the risk of various litigation matters, regulatory and governmental actions and investigations as well as remedial undertakings, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on NWM Group*'). These risks are also present when NWM Group relies on third-party suppliers or vendors to provide services to it or its clients, as is increasingly the case as NWM Group outsources certain activities, including with respect to the implementation of new technologies, innovation and responding to regulatory and market changes.

Operational risks continue to be heightened as a result of the NWM Refocusing, NatWest Group's purpose-led strategy, NWM Group's current cost-reduction measures and conditions affecting the financial services industry generally (including the COVID-19 pandemic and other geo-political developments) and in particular 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 NWM Group will evolve to best serve its customers. Any of the above may place significant pressure on NWM Group's ability to maintain effective internal controls and governance frameworks.

In recent years, NWM Group has materially increased its dependence on NatWest Bank Plc for numerous critical services and operations, including without limitation, property, finance, accounting, treasury, risk, regulatory compliance and reporting, human resources, and certain other support and administrative functions. A failure by NatWest Bank Plc to adequately supply these services may expose NWM Group to critical business failure risk, increased costs and other liabilities. These and any increases in the cost of these services may adversely impact NWM Group's business, results of operations and outlook.

The effective management of operational risks is critical to meeting customer service expectations and retaining and attracting client business. Although NWM Group has implemented risk controls and mitigation actions, with resources and planning having been devoted to mitigate operational risk, such measures may not be effective in controlling each of the operational risks faced by NWM Group. Ineffective management of such risks could adversely affect NWM Group.

NWM Group is subject to increasingly sophisticated and frequent cyberattacks.

NWM Group experiences a constant threat from cyberattacks across the entire NatWest Group (including NWM Group) and against NatWest Group and NWM Group's supply chain, reinforcing the importance of due diligence of close working relationship with, the third parties on which NWM Group relies. NWM Group is reliant on technology, against which there is a constantly evolving series of attacks, that are increasing in terms of frequency, sophistication, impact and severity. As cyberattacks evolve and become more sophisticated, NWM Group is required to continue to invest in additional capability designed to defend against emerging threats. In 2021, NWM 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 global financial services industry. The focus is to manage the impact of the attacks and sustain availability of services for NWM Group's customers. NWM 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 NWM Group's IT systems. NWM Group has information and cyber security controls in place to minimise the impact of any attack, 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 all attacks in the future. See also, '*NWM Group's operations are highly dependent on its complex IT systems (including those that enable remote working) and any IT failure could adversely affect NWM Grou*p'.

Any failure in NWM 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 other sensitive information (including as a result of an outage) and may cause associated reputational damage. Any of these factors could increase costs (including costs relating to notification of, or compensation for clients and credit monitoring), result in regulatory investigations or sanctions being imposed or may affect NWM Group's ability to retain and attract clients. Regulators in the UK, US, Europe and Asia continue to recognise cybersecurity as an important systemic risk to the financial sector and have highlighted the need for financial institutions to improve their monitoring and control of, and resilience (particularly of critical services) to cyberattacks, and to provide timely notification of them, as appropriate.

Additionally, third parties may also fraudulently attempt to induce employees, customers, third party providers or other users who have access to NWM Group's systems to disclose sensitive information in order to gain access to NWM Group's data or that of NWM Group's clients or employees. Cybersecurity and information security events can derive from groups or factors such as: internal or external threat actors, human error, fraud or malice on the part of NWM Group's employees or third parties, including third party providers, or may result from accidental technological failure.

NWM Group expects greater regulatory engagement, supervision and enforcement to continue at a high level in relation to its overall resilience to withstand IT and 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 could negatively impact NWM Group. Due to NWM Group's reliance on technology and the increasing sophistication, frequency and impact of cyberattacks, such attacks may adversely impact NWM Group.

In accordance with the Data Protection Act 2018 and the European Union Withdrawal Act 2018, the Data Protection, Privacy and Electronic Communications (Amendments Etc.) (EU Exit) Regulations 2019, as amended by the Data Protection, Privacy and Electronic Communications (Amendments Etc.) (EU Exit) Regulations 2020 ('UK Data Protection Framework') and European Banking Authority ('EBA') Guidelines on ICT and Security Risk Management, NWM Group is required to ensure it implements timely appropriate and effective organisational and technological safeguards against unauthorised or unlawful access to data of NWM Group, its clients and its employees. In order to meet this requirement, NWM Group relies on the effectiveness of its internal policies, controls and procedures to protect the confidentiality, integrity and availability of information held on its IT systems, networks and devices as well as with third parties with whom NWM 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.

NWM Group operations and strategy are highly dependent on the accuracy and effective use of data.

NWM 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, 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 that data or the ineffective use, governance or control 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. This could also result in a failure to deliver NWM Group's strategy and could place NWM Group at a competitive disadvantage by increasing its costs, inhibiting its efforts to reduce costs or its ability to improve its systems, controls and processes which could result in a failure to deliver NWM Group's strategy.

These data weaknesses and limitations, or the unethical or inappropriate use of data, and/or non-compliance with customer data protection laws could give rise to, for example, conduct and litigation risks and increased risk of operational events, losses or other adverse consequences due to inappropriate models, systems, processes, decisions or other actions. Any of the above may lead to key business processes being negatively impacted by inappropriately managed data, which could lead to material financial, customer and regulatory impacts.

NWM Group relies on attracting, retaining, developing and remunerating diverse senior management and skilled personnel (such as market trading specialists), and is required to maintain good employee relations.

NWM Group's success depends on its ability to attract, retain, through creating an inclusive environment, and develop and remunerate highly skilled and qualified diverse personnel, including senior management, directors, market trading specialists and key employees, especially for technology and data focused roles, in a highly competitive market, in an era of strategic change and under internal cost reduction pressures.

The inability to compensate employees competitively and/or any reduction of compensation as a result of the impact of the NWM Refocusing, the perception that following the Refocusing NWM Group may not be a viable or competitive business, heightened regulatory oversight of banks and the increasing scrutiny of, and (in some cases) restrictions placed upon, employee compensation arrangements (in particular those of banks in receipt of government support such as NatWest Group), negative economic developments or other factors, could have an adverse effect on NWM Group's ability to hire, retain and engage well qualified employees, especially at a senior level, which could have an adverse effect on financial position and prospects of NWM Group.

This increases the cost of hiring, training and retaining diverse skilled personnel. In addition, certain economic, market and regulatory conditions and political developments may reduce the pool of diverse 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 have an adverse impact on NWM Group's employee engagement and the formulation and execution of its strategy, and could also have a negative effect on its reputation with customers, investors and regulators. The NWM Refocusing has also reduced NWM Group's ability to engage in succession planning for critical roles given the recent reduction in headcount. This has placed increased risk on employee turnover within revenue generating areas.

Sustained periods of remote working may also negatively affect workforce morale. Whilst NWM Group has taken measures seeking to maintain the health, wellbeing and safety of its employees, these measures may be ineffective.

Some of NWM Group's employees are represented by employee representative bodies, including trade unions and works councils. Engagement with its employees and such bodies is important to NWM Group in maintaining good employee relations. Any breakdown of these relationships could have an adverse effect on NWM Group.

NWM Group's operations are highly dependent on its complex IT systems (including those that enable remote working) and any IT failure could adversely affect NWM Group.

NWM Group's operations are highly dependent on the ability to process a very large number of transactions efficiently and accurately while complying with applicable laws and regulations. The proper functioning of NatWest Group's (including NWM Group's) transactional and payment systems, financial crime, fraud systems and controls, risk management, credit analysis and reporting, accounting, customer service and other IT systems (some of which are owned and operated by other entities in NatWest Group or third parties), is critical to NWM Group's operations.

Individually or collectively, any critical system failure, material loss of service availability or material breach of data security could cause serious damage to NWM Group's ability to provide services to its clients, which could result in reputational damage, significant compensation costs or regulatory sanctions (including fines resulting from regulatory investigations) or a breach of applicable regulations and could affect its regulatory approvals, competitive position, business and brands, which could undermine its ability to attract and retain customers. This risk is heightened as most of NWM Group's employees continue to work remotely, as it outsources certain functions and as it continues to innovate and offer new digital solutions to its clients as a result of the trend towards online and digital product offerings (see also '*NWM Group's current policy is that most employees will work remotely majority of the time. This may adversely affect NWM Group's ability to maintain effective internal controls*').

In 2021, NWM 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). As part of the NWM Refocusing, NWM 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, could negatively affect NWM Group's operations, its reputation and ability to retain or grow its client business or adversely impact its competitive position, thereby negatively impacting NWM Group. See also, '*— NWM Group has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy (including the NWM Refocusing) and may continue to be subject to significant structural and other change*'.

Remote working may adversely affect NWM Group's ability to maintain effective internal controls.

From March 2020 to September 2021, many of NWM Group's employees worked exclusively on a remote basis. Following the lifting of government restrictions, NWM Group will implement a new hybrid working policy whereby many employees may work remotely the majority of the time in the ordinary course of their roles.

Remote working arrangements for NWM Group employees continues to place heavy reliance on the IT systems that enable remote working and increased exposure to fraud, conduct, operational and other risks and may place additional pressure on NWM 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. See also, '*A failure in NWM Group's risk management framework could adversely affect NWM Group, including its ability to achieve its strategic objectives*'. Moreover**,** the IT systems that enable remote working interface with third-party systems, and NWM 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. See also, '*NWM Group's operations are highly dependent on its complex IT systems (including those that enable remote working) and any IT failure could adversely affect NWM Group*'.

Sustained periods of remote working may also negatively affect workplace morale. Whilst NWM Group has taken measures seeking to maintain the health, wellbeing and safety of its employees during the COVID-19 pandemic, these measures may be ineffective. Operational difficulties as a result of the COVID-19 pandemic, which may affect NWM Group's external stakeholders (including clients), may result in challenges in managing daily cash and liquidity. As a result of remote working, compliance and conduct risk may also be heightened both as a result of internal and external factors.

Any of the above could impair NWM Group's ability to hire, retain and engage well-qualified employees, especially at a senior level, which in turn may adversely impact NWM Group's ability to serve its clients efficiently, and impact productivity across NWM Group. This could adversely affect NWM Group's reputation and competitive position and its ability to grow its business.

A failure in NWM Group's risk management framework could adversely affect NWM Group, including its ability to achieve its strategic objectives.

Risk management is an integral part of all of NWM Group's activities and includes the definition and monitoring of NWM Group's risk appetite and reporting on NWM Group's risk exposure and the potential impact thereof on NWM Group's financial condition. Risk management is highly dependent on the use and effectiveness of internal stress tests and models and ineffective risk management may arise from a wide variety of factors, including lack of transparency or incomplete risk reporting, unidentified conflicts or misaligned incentives, lack of accountability control and governance, incomplete risk monitoring (including trade surveillance) and failures of systems to properly process all relevant data, risks related to unanticipated behaviour or performance in algorithmic trading and management or insufficient challenges or assurance processes. Failure to manage risks effectively could adversely impact NWM Group's reputation or its relationship with its regulators, clients, shareholders or other stakeholders.

In addition, financial crime risk management is dependent on the use and effectiveness of financial crime assessment, systems and controls. Weak or ineffective financial crime processes and controls may risk NatWest Group inadvertently facilitating financial crime which may result in regulatory investigation, sanction, litigation and reputational damage. Financial crime continues to evolve, whether through fraud, scams, cyber-attacks or other criminal activity. NatWest Group (and NWM 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. NWM Group's financial crime controls are operated by NatWest Group on behalf of NWM Group.

NWM Group's operations are inherently exposed to conduct risks, which include business decisions, actions or reward mechanisms that are not responsive to or aligned with NWM Group's regulatory obligations, client needs or do not reflect NWM 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. NWM 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 NWM Group.

These risks may be exacerbated as most of NWM Group's employees continue to work remotely, which places additional pressure on NWM Group's ability to maintain effective internal controls and governance frameworks.

NWM Group is 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 its risk management framework. However, such efforts may not insulate NWM Group from future instances of misconduct and no assurance can be given that NWM Group's strategy and control framework will be effective. See also, '*NWM Group has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy (including the NWM Refocusing) and may continue to be subject to significant structural and other change*'. Any failure in NWM Group's risk management framework could negatively affect NWM Group and its financial condition through reputational and financial harm and may result in the inability to achieve its strategic objectives for its clients, employees and wider stakeholders.

NWM Group's operations are subject to inherent reputational risk.

Reputational risk relates to stakeholder and public perceptions of NWM Group arising from an actual or perceived failure to meet stakeholder expectations, including with respect to the NWM Refocusing and related targets, due to any events, behaviour, action or inaction by NWM Group, its employees or those with whom NWM Group is associated. See also, '*NWM Group's businesses are subject to substantial regulation and oversight, which are constantly evolving and may adversely affect NWM Group'*. This includes brand damage, which may be detrimental to NWM Group's business, including its ability to build or sustain business relationships with clients, 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 a material lapse in standards of integrity, compliance, customer or operating efficiency and may adversely affect NWM Group's ability to attract and retain clients. In particular, NWM Group's ability to attract and retain clients may be adversely affected by, amongst others: negative public opinion resulting from the actual or perceived manner in which NWM Group or any other member of NatWest Group conducts or modifies its business activities and operations, media coverage (whether accurate or otherwise), employee misconduct, NWM Group's financial performance, IT systems failures or cyberattacks, data breaches, financial crime and fraud, the level of direct and indirect government support for NatWest Group plc, or the actual or perceived practices in the banking and financial industry in general, or a wide variety of other factors.

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 NWM Group has implemented a Reputational Risk Policy to improve the identification, assessment and management of customers and clients, transactions, products and issues, which represent a reputational risk, NWM Group cannot be certain that it will be successful in avoiding damage to its business from reputational risk.

Legal, regulatory and conduct risk

NWM Group's businesses are subject to substantial regulation and oversight, which are constantly evolving and may adversely affect NWM Group.

NWM Group is subject to extensive laws, regulations, corporate governance practice and disclosure requirements, administrative actions and policies in each jurisdiction in which it operates. Many of these have been introduced or amended recently and are subject to further material changes, which may increase compliance and conduct risks, particularly as EU/EEA and UK laws diverge as a result of Brexit. NWM Group 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. Amongst others, 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 regulations in respect of the provision of 'investment services and activities'), 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 NWM Group operates. The competitive landscape for banks and other financial institutions in the UK, EU/EEA 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. Competition authorities, including the CMA, are currently also looking at and focusing more on how they can support competition and innovation in digital markets. 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, product offerings and business models.

For example, NWM Group is required to ensure operational continuity in resolution; the steps required to ensure such compliance entail significant costs, and also impose significant operational, legal and execution risk. Material consequences could arise should NWM Group be found to be non-compliant with these regulatory requirements. Such changes may also result in an increased number of regulatory investigations and proceedings and have increased the risks relating to NWM Group's ability to comply with the applicable body of rules and regulations in the manner and within the timeframes required.

Other areas in which, and examples of where, governmental policies, regulatory and accounting changes and increased public and regulatory scrutiny could have an adverse impact (some of which could be material) on NWM Group include, but are not limited to:

- general changes in government, central bank, regulatory or competition policy, or changes in regulatory regimes that may influence investor decisions in the jurisdictions in which NWM Group operates;
- rules relating to foreign ownership, expropriation, nationalisation and confiscation of assets;
- new or increased regulations relating to customer data protection as well as IT controls and resilience, including the UK Data Protection Framework and the impact of the Court of Justice of the EU (CJEU) decision (known as Schrems II), in which the CJEU ruled that the Privacy Shield (an EU/US data transfer mechanism) is now invalid, leading to more onerous due diligence requirements for the Group prior to sending personal data of its EU customers and employees to non-EEA countries, including the UK and the US;
- the introduction of, and changes to, taxes, levies or fees applicable to NWM Group's operations, such as the imposition of a financial transaction tax, introduction of global minimum tax rules, changes in the scope and administration of the Bank Levy, changes in tax rates, increases in the bank corporation tax surcharge in the UK, restrictions on the tax deductibility of interest payments or further restrictions imposed on the treatment of carry-forward tax losses that 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 consultation paper (CP21/13)) 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 NWM 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" 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, product offerings and business models. Any of these developments (including any failure to comply with new rules and regulations) could also have a significant impact on NWM Group's authorisations and licences, the products and services that NWM Group may offer, its reputation and the value of its assets, NWM Group's operations or legal entity structure, and the manner in which NWM Group conducts its business. Material consequences could arise should NWM Group be found to be non-compliant with these regulatory requirements. Regulatory developments may also result in an increased number of regulatory investigations and proceedings and have increased the risks relating to NWM Group's ability to comply with the applicable body of rules and regulations in the manner and within the timeframes required.

Changes in laws, rules or regulations, or in their interpretation or enforcement, or the implementation of new laws, rules or regulations, including contradictory or conflicting laws, rules or regulations by key regulators or policymakers in different jurisdictions, or failure by NWM Group to comply with such laws, rules and regulations, may adversely affect NWM Group's business, results of operations and outlook. In addition, uncertainty and insufficient international regulatory coordination as enhanced supervisory standards are developed and implemented may adversely affect NWM Group's ability to engage in effective business, capital and risk management planning.

NWM Group is exposed to the risk of various litigation matters, regulatory and governmental actions and investigations as well as remedial undertakings, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on NWM Group.

NWM Group's operations are diverse and complex and it operates in legal and regulatory environments that expose it to potentially significant legal proceedings, and civil and criminal regulatory and governmental actions. NWM 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.

NWM 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, relating to, among other matters, 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 compliance 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.

NWM 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, as well as approximately US$35 million in fines and restitution. For additional information relating to these and other legal and regulatory proceedings and matters to which NWM Group is currently exposed, see '*Litigation and regulatory matters*' at Note 25 to the consolidated accounts.

The recent guilty plea, other recently resolved matters in the United States, and adverse outcomes or resolution of current or future legal or regulatory actions, could increase the risk of greater regulatory and third party scrutiny and could have material collateral consequences for NWM Group's business and result in restrictions or limitations on NWM Group's operations.

These may include the effective or actual disqualification from carrying on certain regulated activities and consequences resulting from the need to reapply for various important licences or obtain waivers to conduct certain existing activities of NWM Group, particularly but not solely in the US, which may take a significant period of time and the results 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 impact NWM Group's business, in particular in the US. This in turn and/or any fines, settlement payments or penalties could adversely impact NWM Group's reported financial results and condition, capital position or reputation. Similar consequences could result from legal or regulatory actions relating to other parts of NatWest Group.

Failure to comply with undertakings made by NWM Group to its regulators, or the conditions of probation resulting from the spoofing-related guilty plea, may result in additional measures or penalties being taken against NWM Group.

NWM Group may not effectively manage the transition of LIBOR and other IBOR rates to alternative risk-free rates.

UK and international regulators are driving the transition from the use of interbank offer rates ('IBORs'), including LIBOR, to alternative rates, primarily 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 alternative rates. However, the FCA has been clear that the solutions provided under UK BMR and the Critical Benchmarks Act are not permanent and cannot be guaranteed after the end of 2022 (and for JPY the FCA has confirmed that Art23A LIBOR will no longer be available after the end of 2022). This framework and its lack of permanence 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 onto alternative rates and, depending on the notice given for any further restrictions, this transition may need to be completed very quickly; 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, as the FCA has chosen not to permit the use of Art23A LIBOR for cleared derivatives. 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 been clear that this is only to support the rundown of back book USD LIBOR exposures, and that 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 up until they cease at the end of June 2023.

Natwest Group had significant exposures to IBORs and has actively sought to transition away from these during 2021, in accordance with regulatory expectations and milestones. Transition measures have included the pro-active development of new products on using alternative rates, primarily but not exclusively RFRs rather than LIBOR, pro-actively restructuring existing LIBOR exposures so that they cease to reference LIBOR and instead reference alterative rates and embedding language into contracts that allows for the automatic conversion to alternative rates when LIBOR ceases to be available. The main Central Counterparty Clearing houses (CCPs) conducted mass conversion exercises in December 2021 covering GBP, JPY, CHF and EUR LIBOR cleared derivatives to fully transition all outstanding LIBOR exposure to the relevant RFR. Key Natwest Group entities, along with many of their major counterparties, have already adhered to the ISDA IBOR fall-backs supplement and protocol which establishes a clear, industry accepted, contractual process to manage the transition from IBORs to RFRs for non-cleared derivative products.

These transition efforts have involved extensive engagement with customers, industry working groups and regulators, to seek deliver transition in a transparent and economically appropriate manner. Any economic impacts will be dependent on, amongst other things, the establishment of deep and liquid RFR markets, the establishment of clear and consistent market conventions for all replacement products, as well as counterparties' willingness to accept, and transition to, these conventions. Furthermore, certain IBOR obligations may not be able to be pro-actively changed which could, depending on any over-arching legislative transition frameworks, potentially result in fundamentally different economic outcomes than originally intended. The uncertainties around the manner of transition to RFRs, and the ongoing broader acceptance and use of RFRs across the market, expose NWM Group, its clients and the financial services industry more widely to risks.

Examples of these risks may include: (i) legal (including litigation) risks relating to documentation for new and the majority of existing transactions (including, but not limited to, 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 impacted IBORs that may impact NWM Group's performance, including its cost of funds, and its risk management related financial models; (iii) pricing, interest rate or settlement risks, such as changes to benchmark rates could impact pricing, interest rate or settlement mechanisms on certain instruments; (iv) operational risks due to the requirement to adapt 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 and litigation risks arising from communication regarding the potential impact on customers, and 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'.

Notwithstanding all efforts to date, until the transition away from LIBOR onto alternative rates has been fully completed and there is greater experience of how RFRs are adopted across different products and customer groups, it remains difficult to determine to what extent the changes will affect the NWM Group, or the costs of implementing any relevant remedial action. Uncertainty as to the nature and extent of such potential changes, the take up of alternative reference rates or other reforms, may adversely affect financial instruments originally referencing LIBOR as the benchmarks. The implementation of any alternative RFRs may be impossible or impracticable under the existing terms of certain financial instruments and could have an adverse effect on the value of, return on and trading market for, certain financial instruments and on the NWM Group's profitability.

Changes in tax legislation or failure to generate future taxable profits may impact the recoverability of certain deferred tax assets recognised by NWM Group.

In accordance with the accounting policies set out in the section '*Critical accounting policies and key sources of estimation uncertainty*', NWM 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 £104 million as at 31 December 2021. Changes to the treatment of certain deferred tax assets may impact NWM Group's capital position. In addition, NWM 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.

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