

NatWest Markets Plc 14 February 2025

Annual Report and Accounts 2024

Pillar 3 Report 2024

A copy of the Annual Report and Accounts 2024 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>

We have also published the 2024 Pillar 3 report, available on our website.

For further information, please contact:

Media Relations  
+44 (0) 131 523 4205

Investor relations Paul Pybus NatWest Markets Plc Investor Relations  
+44 (0) 207 085 6448

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 2024 in full unedited text. Page references in the text refer to page numbers in the Annual Report and Accounts 2024.

## Principal Risks and Uncertainties

Set out below are certain risk factors that could have a material adverse effect on NWM Group's future results, its financial condition, and/or prospects, and cause them to be materially different from what is forecast or expected, and directly or indirectly impact the value of its securities. These risk factors are broadly categorised and should be read in conjunction with other risk factors in this section and other parts of this annual report, including the forward-looking statements section, the strategic report and the risk and capital management section. They should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties facing NWM Group.

### Economic and political risk

**NWM Group, its customers and its counterparties face continued economic and political risks and uncertainties in the UK and global markets, including as a result of inflation and interest rates, supply chain disruption, and geopolitical developments.**

NWM Group is affected by global economic and market conditions, particularly those in the UK. Uncertain and volatile economic conditions in the UK or globally can create a challenging operating environment for financial services companies such as NWM Group. The outlook for the UK and the global economy is affected by many dynamic factors including: GDP, unemployment, inflation and interest rates, asset prices (including residential and commercial property), energy prices, monetary and fiscal policy (such as increases in bank levies), supply chain disruption, protectionist policies or trade barriers (including tariffs).

Economic and market conditions could be exacerbated by a number of factors including: instability in the UK and/or global financial systems, market volatility and change, fluctuations in the value of the pound sterling, new or extended economic sanctions, volatility in commodity prices, political uncertainty, concerns regarding sovereign debt (including sovereign credit ratings), any lack or perceived lack of creditworthiness of a counterparty or borrower that may trigger market-wide liquidity problems, changing demographics in the markets that NWM Group and its customers serve, rapid changes to the economic environment due to the adoption of technology, automation, artificial intelligence, or due to the consequences of climate change, biodiversity loss, nature degradation and/or increasing social and other inequalities.

NWM Group is also exposed to risks arising out of geopolitical events or political developments that may hinder economic or financial activity levels and may, directly or indirectly, impact UK, regional or global trade and/or NWM Group's customers and counterparties. NWM Group's business and performance could be negatively affected by political, military or diplomatic events, geopolitical tensions, armed conflict (for example, the Russia-Ukraine conflict and Middle East conflicts), terrorist acts or threats, more severe and frequent extreme weather events, widespread public health crises, and the responses to any of the above scenarios by various governments and markets.

In recent years, the UK has experienced significant political uncertainty. NWM Group may also face political uncertainty in Scotland if there is another Scottish independence referendum. Scottish independence may adversely affect NWM Group plc both in relation to its entities incorporated in Scotland and in other jurisdictions. Any changes to Scotland's relationship with the UK or the EU may adversely affect the environment in which NatWest Group plc and its subsidiaries operate and may require further changes to NatWest Group (including NWM Group's structure), independently or in conjunction with other mandatory or strategic structural and organisational changes, any of which could adversely affect NWM Group.

The value of NWM Group's own and other securities may be materially affected by market risk (including as a result of market fluctuations). Market volatility, illiquid market conditions and disruptions in the financial markets may make it very difficult to value certain of NWM Group's own and other securities, particularly during periods of market displacement. This could cause a decline in the value of NWM Group's own and other securities, or 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, or resulting in, rapid depreciation in asset values, which may be accompanied by a reduction in asset liquidity. Under these conditions, hedging and other risk management strategies may not be as effective at mitigating losses as they would be under more normal market conditions. Moreover, under these conditions, market participants are particularly exposed to trading strategies employed by many market participants simultaneously (and often automatically) and on a large scale, increasing NWM 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, market events have historically been difficult to predict, and NWM Group, its customers and its counterparties could experience significant losses if severe market events were to occur.

Any of the above may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

#### **Fluctuations in currency exchange rates may adversely affect NWM Group's results and financial condition.**

Decisions of central banks (including the BoE, the ECB, and the US Federal Reserve) and political or market events which are outside NWM Group's control, may lead to sharp and sudden fluctuations in currency exchange rates.

Although NWM Group is principally a UK-focused banking group, it is subject to structural foreign exchange risk from capital deployed in NWM Group and its foreign subsidiaries and branches. NWM Group also issues instruments in non-sterling currencies, such as USD, that assist in meeting NWM Group's regulatory requirements. In addition, NWM Group conducts banking activity in non-sterling currencies (for example, loans, deposits and dealing activity) which affect its revenue. NWM Group also uses service providers based outside the UK for certain services and as a result certain operating expenses are subject to fluctuations in currency exchange rate. NWM Group maintains policies and procedures designed to manage the impact of its exposure to fluctuations in currency exchange rates. Nevertheless, changes in currency exchange rates, particularly in the sterling-US dollar and sterling-euro rates, may adversely affect various accounting and financial metrics including the value of assets, liabilities (including the total amount of instruments eligible to contribute towards the minimum requirement for own funds and eligible liabilities ('MREL')), income and expenses, RWAs and hence the reported earnings and financial condition of NWM Group.

Any of the above may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

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

NWM Group's performance is affected by changes in interest rates. Benchmark overnight interest rates, such as the UK base rate, decreased in 2024, and forward rates suggest that interest rates will continue to decline in 2025. Stable interest rates support more predictable income flow and less volatility in asset and liability valuations, although persistently low and negative interest rates may adversely affect NWM Group. Further, volatility in interest rates may result in unexpected outcomes both for interest income and asset and liability valuations which may adversely affect NWM Group. For example, decreases in key benchmark rates such as the UK base rate may adversely affect NWM Group's income, and unexpected movements in spreads between key benchmark rates such as sovereign and swap rates may, in turn, affect liquidity portfolio valuations. In addition, unexpected sharp rises in rates may also have negative impacts on some asset and derivative valuations.

Moreover, customer and investor responses to rapid changes in interest rates can have an adverse effect on NWM Group. For example, customers may make deposit choices that provide them with higher returns than those being offered by NWM Group. Alternatively, NWM Group may not respond with competitive products as rapidly, for example following an interest rate change which may in turn decrease NWM Group's net interest income.

Movements in interest rates also influence and reflect the macroeconomic situation more broadly, affecting factors such as business and consumer confidence, property prices, default rates on loans, customer behaviour (which may adversely impact the effectiveness of NWM Group's hedging strategy), and other indicators that may indirectly affect NWM Group.

Any of the above may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

#### **HM Treasury (or UKGI on its behalf) could exercise, or be perceived as being capable of exercising, influence over NatWest Group and NWM Group is controlled by NatWest Group.**

In its Autumn Budget 2024, the UK Government confirmed its commitment to exit its shareholding in NatWest Group plc by 2025-2026 subject to market conditions and sales representing value for money for taxpayers. Accordingly, following various prior sell-downs of parts of its shareholding in NatWest Group plc, HM Treasury is no longer a "controlling shareholder" of NatWest Group plc. As at 13 January 2025, HM Treasury held 8.90% of the ordinary share capital with voting rights of NatWest Group plc.

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 their own independent board of directors and management team determining their own

strategy. However, for as long as HM Treasury remains NatWest Group plc's largest single shareholder, HM Treasury and UK Government Investments Limited ('UKGI') (as manager of HM Treasury's shareholding) could exercise, or be perceived as being capable of exercising, influence over NatWest Group (including NWM Group), on matters such as changes to NatWest Group's (including NWM Group's) directors and senior management, NatWest Group's (including NWM Group's) capital strategy, dividend policy, remuneration policy or how NatWest Group conducts its operations. HM Treasury or UKGI's approach largely depends on government policy, which could change. Any exercise of such influence, or the perception that such influence may be exercised, may have an adverse effect on NatWest Group's (including NWM Group's) reputation, the price of NatWest Group's (including NWM Group's) securities, or the governance or business strategy of NWM Group.

The way in which HM Treasury or UKGI exercises HM Treasury's rights as NatWest Group plc's largest single shareholder could give rise to conflicts between the interests of HM Treasury and the interests of other shareholders, including as a result of a change in government policy, which may in turn adversely affect NatWest Group (including NWM Group).

In addition, NWM Plc is a wholly owned subsidiary of NatWest Group plc, and NatWest Group plc therefore controls NWM Plc's board of directors and NWM Group's corporate policies and strategic direction. The interests of NatWest Group plc (as an equity holder and as NWM Group's parent) and the interests of the C&I business segment may differ from, and conflict with, the interests of NWM Group or of potential investors in its securities. See also, 'NWM Group has been in a period of, and may continue to be subject to, significant structural and other change.'

Any of the above may have a material adverse effect on NWM Group's future results, financial condition, prospects, reputation, and/or the price of its securities.

### **Business change and execution risk**

#### **NWM Group has been in a period of, and may continue to be subject to, significant structural and other change.**

As part of NatWest Group's strategy (including the strategic priorities of disciplined growth, bank-wide simplification and active balance sheet and risk management), NWM Group's own strategy has evolved to mostly focus on serving NatWest Group's corporate and institutional customer base via the creation of NatWest Group's C&I business segment. NatWest Group plc reports NWM Group's results under the C&I operating segment structure, although NWM Plc continues to also report on a standalone legal entity basis.

The C&I business segment was created to promote closer operational and strategic alignment to support NatWest Group growth, with more integrated services to customers across NatWest Group entities, within and outside the ring-fenced banks with the potential increased risk of breach of the UK ring-fencing regime requiring effective conflicts of interest policies. As a result of further focusing on NatWest Group's core C&I customers, NWM Group's prospects have become further dependent on the success and strategy of NatWest Group and its C&I business segment in particular.

NWM Group's ability to serve its customers may be adversely affected by the execution of NatWest Group's strategy in respect of its C&I business segment and customer reactions to the changing nature of NWM Group's business model may be more adverse than expected. Previously anticipated revenue and profitability levels may not be achieved (including in relation to: the ability to support customer transactions whilst meeting NWM Group capital targets, and changes to the availability of risk capital), in the timescales envisaged or at all.

An adverse macroeconomic environment, political and regulatory uncertainty, market volatility and change, and/or strong market competition may require NWM Group to adjust aspects of its strategy or the timeframe for its implementation. It is anticipated that NWM Plc will continue to generate operating losses in the short-term and as a result its capital levels may decline.

NWM Group's strategy requires it to focus on bank-wide simplification, a significant proportion of which is dependent on simplification of its IT systems and therefore may not be realised if IT capabilities are not delivered in line with assumptions. In addition, the scale of changes that have been concurrently implemented require the implementation and application of robust governance and controls frameworks and robust IT systems. There is a risk that NWM Group may not be successful in maintaining such governance and control frameworks and IT systems.

As part of NWM Group's strategy, NWM Group has set a number of financial, capital and operational targets and expectations, which are expected to require further reductions to its wider cost base. The financial, operational and capital targets and expectations envisaged by NWM's strategy may not be met or maintained in the timeframes expected or at all. In addition, targets and expectations for NWM Group are based on management plans, projections and models, and are subject to a number of key assumptions and judgements, any of which may prove to be inaccurate. NWM Group has implemented a shared services model and transfer pricing arrangements with some entities within NatWest Group's ring-fenced sub-group (including NatWest Bank Plc and The Royal Bank of Scotland Plc). NWM Group therefore relies directly or indirectly on NatWest Group entities to provide services to itself and its customers. This reliance has increased as a result of NWM Group joining NatWest Group's C&I business segment.

A failure of NWM Group to receive these services may result in operational risk. See, 'Operational risks (including reliance on third party suppliers and outsourcing of certain activities) are inherent in NWM Group's businesses.' In addition, any change to the cost and/or scope of services provided by NatWest Group may impact NWM Group's competitive position and its ability to meet its other targets.

NWM's strategy entails legal, execution, operational and regulatory (including compliance with the UK ring-fencing regime), conflicts, IT system, cybersecurity, culture, people, conduct, business and financial risks to NWM Group. As a result, NWM Group may not be able to successfully implement some or all aspects of its strategy or may not meet any or all of the related strategic targets or expectations.

Additionally, as a result of the UK's withdrawal from the EU, certain aspects of the services provided by NWM Group require local licences or individual equivalence decisions (temporary or otherwise) by relevant regulators. In April 2024, the European Parliament

approved the Banking Package (CRR III/CRD VI). From 10 January 2027, non-EU firms providing ‘banking services’ will be required to apply for and obtain authorisation to operate as third country branches in each relevant EU member state where they provide these services, unless an exemption applies. NatWest Group continues to evaluate its EU operating model, making adaptations as necessary. In December 2024, NatWest Group decided to simplify the operating model in Europe. NWM N.V. will become the primary European corporate and institutional customer-facing entity, subject to regulatory approval. Changes to, or uncertainty regarding, NWM Group’s EU operating model have been, and may continue to be, costly and may: (i) adversely affect customers and counterparties who are dependent on trading with the EU or personnel from the EU; (ii) result in further costs and/or regulatory sanction due to a failure to receive the required regulatory permissions and/or further changes to NWM Group’s business operations, product offering, customer engagement, and regulatory requirements; and/or (iii) impact NWM Plc’s direct access to euro ECB liquidity facilities and euro central bank reserves.

Furthermore, transferring business to an EEA based subsidiary, including in connection with NatWest Group’s Western European corporate portfolio, is a complex exercise and involves legal, regulatory and execution risks, and could result in a loss of business and/or customers or higher than anticipated costs (see also, ‘The transfer of NatWest Group’s Western European corporate portfolio involves certain risks.’). Any of the above could, in turn, adversely affect NWM Group.

As a result of RBS Holdings N.V. and its subsidiary NatWest Markets N.V. (both subsidiaries of NWM Group) being classified as a “significant supervised group”, ECB direct supervision of both subsidiaries began on 1 January 2024, which could have an adverse effect on NWM Group’s business strategy, operating model and prudential requirements in the short and medium term.

Each of the risks identified above, individually or collectively, could adversely affect NWM Group’s products and services offering or office locations, competitive position, ability to meet targets and commitments, reputation with customers or business model and may result in higher-than-expected costs, all of which could adversely affect NWM Group and its ability to deliver its strategy. There is a risk that the intended benefits of NatWest Group’s and NWM Group’s strategies may not be realised in the timelines or in the manner contemplated, or at all. Various aspects of NWM Group’s strategy may not be successful, may not be completed as planned, or at all, or could be phased or could progress in a manner other than as expected. This could lead to additional management actions by NatWest Group (or NWM Group), regulatory action or reduced liquidity and/or funding opportunities.

Any of the above may lead to NWM Group not being viable, competitive, or profitable, and may have a material adverse effect on NWM Group’s future results, financial condition, prospects, and/or reputation.

#### **The transfer of NatWest Group’s Western European corporate portfolio involves certain risks.**

To improve efficiencies and best serve customers following the UK’s withdrawal from the EU, certain assets, liabilities, transactions and activities of NatWest Group (including its Western European corporate portfolio principally consisting of term funding and revolving credit facilities) (the ‘Transfer Business’), are expected to be: (i) transferred from the ring-fenced subgroup of NatWest Group to NWM Group, and/or (ii) transferred to the ring-fenced subgroup of NatWest Group from NWM Group, subject to regulatory and customer requirements. The timing, success and quantum of any of these transfers remain uncertain as is the impact of these transactions on its results of operations. As a result, this may have a material adverse effect on NWM Group’s future results, financial condition, prospects, and/or reputation.

#### **Financial resilience risk**

##### **NWM Group may not achieve its ambitions or targets, meet its guidance, generate returns, or implement its strategy effectively.**

NWM Group has set a number of financial, capital and operational targets and provided guidance including in respect of: CET1 ratio and leverage ratio targets (for NWM Plc and NWM N.V.), MREL targets, targets in relation to local regulation, funding plans and requirements, employee engagement, diversity and inclusion as well as climate strategy (including its climate and sustainable funding and financing targets).

NWM Group’s ability to meet its ambitions, targets, guidance, and make discretionary capital distributions is subject to various internal and external factors, risks and uncertainties. These include but are not limited to: UK and global macroeconomic, political, market and regulatory uncertainties, customer behaviour, operational risks and risks relating to NWM Group’s business model and strategy (including risks associated with climate and other sustainability-related issues). See also, ‘NWM Group, its customers and its counterparties face continued economic and political risks and uncertainties in the UK and global markets, including as a result of inflation and interest rates, supply chain disruption, and geopolitical developments.’

A number of factors may impact NWM Plc and NWM N.V.’s abilities to maintain their respective CET1 ratio targets, including the macroeconomic environment, impairments, the extent of organic capital generation and the receipt and payment of dividends. Furthermore, the focus on maintaining a disciplined cost base 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 adversely affect NWM Group’s business and its ability to achieve its targets, meet its guidance, and execute its strategy. Furthermore, NWM Group’s strategy may not be successfully executed or it may not meet its ambitions, targets, guidance and expectations.

Any of the above may lead to NWM Group not being a viable, competitive or profitable banking business and may have a material adverse effect on NWM Group’s future results, financial condition, prospects, and/or reputation.

##### **NWM Plc and/or its regulated subsidiaries may not meet the prudential regulatory requirements for regulatory 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 and NWM N.V.'s target CET1 ratios are based on regulatory requirements and management actions (see the targets set forth in each respective entity's Outlook section) that rely on internal modelling and risk appetite (including under stress). As at 31 December 2024, NWM Plc's solo CET1 ratio was 18% and its CET1 target ratio for the medium term is around 14%. 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 N.V.'s CET1 ratios include:

- a depletion of NWM Plc or NWM N.V.'s capital resources through reduced profits (which would in turn impact retained earnings) and may result from revenue attrition or increased liabilities, sustained periods of low interest rates, reduced asset values resulting in write-downs or reserve adjustments, impairments, changes in accounting policy, accounting charges or foreign exchange movements;
- a change in the quantum of NWM Plc's or NWM N.V.'s RWAs, stemming from exceeding target RWA levels, regulatory changes (including their interpretation or application), foreign exchange movements or a failure in internal controls or procedures to accurately measure and report RWAs/leverage exposure. 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 PRA) or NWM N.V. (as regulated by the ECB), including Pillar 2 requirements and regulatory buffers as well as any applicable scalars;
- further losses (including as a result of extreme one-off incidents such as cyberattack, fraud or conduct issues) would deplete capital resources and place downward pressure on the CET1 ratio; or
- the timing of planned liquidation, disposal and/or capital releases of capital including on activity or legacy entities owned by NWM Plc and NWM N.V.

See also 'NWM Group has been in a period of, and may continue to be subject to, significant structural and other change.'

Management actions taken under a stress scenario may affect, among other things, NWM Group's product offering, its credit ratings, its ability to operate its businesses and pursue its strategy, 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,' 'NatWest Group (including NWM Group) may become subject to the application of UK statutory stabilisation or resolution powers which may result in, for example, the write-down or conversion of NWM Group entities' Eligible Liabilities', and NWM Group may be adversely affected if NatWest Group fails to meet the requirements of regulatory stress tests.'

Any of the above may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

**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 plc) for the subscription to its internal capital and MREL. The inability to do so may adversely affect NWM Group.**

NWM Plc's funding plan anticipates that in 2025, it will issue £4-5 billion of public benchmark issuance, based on its current and anticipated business activities. NWM Group (which includes NatWest Markets N.V.) therefore has significant anticipated funding requirements, which may increase in the future (including as a result of changes to NatWest Group's and NWM Group's EU operating model), and is reliant on frequent access to the capital markets for funding, at a cost that can be passed through to its customers. This access entails execution risk, regulatory risk, risk of reduced commercial activity, risk of loss of market confidence in NWM Group if it cannot finance its activities and risk of a ratings downgrade, which could be influenced by a number of internal or external factors, including, those summarised in these risk factors.

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 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 BoE has identified that the preferred resolution strategy for NatWest Group is as a single point-of-entry.

As a result, NatWest Group plc is the only entity 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 requirements and MREL 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 N.V. may fail to meet their respective regulatory capital and/or MREL (at present, NWM N.V. does not have its own MREL).

Any of the above may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

**NWM Group may not meet the prudential regulatory requirements for liquidity and funding or may not be able to adequately access sources of liquidity and funding, which could trigger the execution of certain management actions or recovery options.**

Liquidity and the ability to raise funds continues to be a key area of focus for NWM Group and the industry as a whole. NatWest Group



and NWM Plc (on a standalone basis) are required by regulators in the UK, the EU and other jurisdictions in which they undertake regulated activities to maintain adequate liquidity and funding resources. To satisfy its liquidity and funding requirements, NWM Group may therefore access sources of liquidity and funding through deposits and wholesale funding, including debt capital markets and trading liabilities such as repurchase agreements. As at 31 December 2024, NWM Group held £9.4 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 customers, changes in customer behaviour, loss of customer and/or investor confidence (including in individual NWM Group entities or the UK banking sector or the banking sector as a whole), changes in interest rates, government support, increasing competitive pressures for bank funding or the reduction or cessation of deposits and other funding by counterparties, any of which could result in a significant outflow of deposits or reduction in wholesale funding within a short period of time. See also, 'NWM Group has significant exposure to counterparty and borrower risk including credit losses, which may have an adverse effect on NWM Group'. 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, adversely affect NWM Group.

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.

Macroeconomic developments, political uncertainty, changes in interest rates, and market volatility, could affect NWM Group's ability to access sources of liquidity and funding on satisfactory terms, or at all. This may result in higher funding costs and failure to comply with regulatory capital, funding and leverage requirements. As a result, NWM Plc and its subsidiaries could be required to change their funding plans and/or their funding operations. For example, 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. This could exacerbate funding and liquidity risk, which may adversely affect NWM Group.

As at 31 December 2024, NWM Group reported a liquidity coverage ratio of 195%. If its liquidity position and/or funding were to come under stress and if NWM Group is unable to raise funds through deposits, wholesale funding sources or other reliable funding sources, on acceptable terms, or at all, its liquidity position would likely be adversely affected. This would mean that NWM Group might be unable to: meet deposit withdrawals on demand or satisfy buyback requests, repay borrowings as they mature, meet its obligations under committed financing facilities, comply with regulatory funding requirements, undertake certain capital and/or debt management activities, or fund new loans, investments and businesses.

If, under a stress scenario, the level of liquidity falls outside of NWM Group's risk appetite, there are a range of recovery management actions that NWM Group could take to manage its liquidity levels, but any such actions may not be sufficient to restore adequate liquidity levels, and the related implementation may have adverse consequences for NWM Group. Under the PRA Rulebook, NatWest Group must maintain a recovery plan acceptable to its regulator, such that a breach of NWM Group's applicable liquidity requirements would trigger consideration of NWM Plc's recovery actions, and in turn may prompt consideration and execution of NatWest Group's recovery plan, to attempt to remediate a deficient liquidity position.

NWM Group may need to liquidate assets to meet its liabilities, including disposals of assets not previously identified for disposal to reduce its funding or payment commitments or trigger the execution of certain management actions or recovery options. This could also lead to higher funding costs and/or changes to NWM Group's funding plans or its operations. 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 may adversely affect NWM Group.

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.

Continuing market volatility may impact capital and RWAs and NWM Group and its subsidiaries may be required to adapt their funding plans or change their operations in order to satisfy their respective capital and funding requirements, which may have a negative impact on NWM Group. Market volatility may also result in increases to leverage exposure.

Any of the above may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

#### **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 PRA Rulebook, 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 actions, and in turn may prompt consideration and execution of NatWest Group's recovery actions. 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 BoE has identified single point-of-entry at NatWest Group plc, as the preferred resolution strategy for NatWest Group. However, under certain conditions set forth in the BRRD, as the UK resolution authority, the BoE 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, in turn, affect: NWM Group's product offering, credit ratings, ability to operate its businesses and pursue its strategy 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, for example, the write-down or conversion of NWM Group entities' Eligible Liabilities.' In addition, if NWM Plc or NWM N.V.'s liquidity position were to be adversely affected, this may require assets to be liquidated or may result in higher funding costs, which may adversely affect NWM Group's operating performance.

Any of the above may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

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

Rating agencies regularly review NatWest Group plc, NWM Plc and other NatWest Group entities' credit ratings and outlooks. NWM Group entities' credit ratings and outlooks, could be negatively affected (directly and indirectly) by a number of factors that can change over time, including, without limitation: credit rating agencies' assessment of NWM Group's strategy and management's capability; its financial condition including in respect of profitability, asset quality, capital, funding and liquidity, and risk management practices; the level of political support for the sectors and regions in which NWM Group operates; 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, geopolitical and economic conditions in NWM Group's key markets (including inflation and interest rates, supply chain disruptions and geopolitical developments); any reduction of the UK's sovereign credit rating and market uncertainty. In addition, credit rating agencies are increasingly taking into account sustainability-related factors, including climate, environmental, social and governance-related risk, as part of the credit rating analysis, as are investors in their investment decisions.

Any reductions in the credit rating of NatWest Group plc, NWM Plc or of certain other NatWest Group entities could significantly affect NWM Group. Adverse consequences for NWM Group from downgrades could include, without limitation, a reduction in the access to capital markets or in the size of its deposit base, and trigger additional collateral or other requirements in its funding arrangements or the need to amend such arrangements, which could adversely affect NWM Group's liquidity and funding position, cost of funding, and could limit the range of counterparties willing to enter into transactions with NWM Group on favourable terms, or at all. This may in turn adversely affect NWM Group's competitive position and threaten its prospects.

Any of the above may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

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

NatWest Group (including NWM Group) faces increasing competitive pressures and technology disruption from incumbent traditional UK banks, challenger banks and building societies (including those resulting from mergers between these entities), fintech companies, large technology conglomerates and new market entrants who could look to scale technology and/or other competitive advantages to compete with NatWest Group for customer engagement. "BigTech" companies are seen as threats to incumbent banking providers because of their customer innovation and global reach. In addition, digital-first banks (often referred to as "neobanks") and fintechs are aiming to compete with incumbent banking providers on the basis that customers increasingly use a constellation of providers to support their complex and evolving needs (e.g., personal financial management and paying for goods and services in foreign currency).

NWM Group expects competition to continue and intensify in response to various trends including: evolving customer behaviour, technological changes (including digital currencies, stablecoins and the growth of digital banking), competitor behaviour, new market entrants, competitive foreign exchange offerings, industry trends resulting in increased disaggregation or unbundling of financial services or, conversely, the re-intermediation of traditional banking services, and the impact of regulatory actions, among others. In particular, NWM Group may be unable to grow or retain its market share due to new (or more competitive) banking, lending and payment products and services that are offered by rapidly evolving incumbents and challengers (including shadow banks, alternative or direct lenders and new entrants). These competitive pressures and the introduction of disruptive technology may result in a shift in customer behaviour and impact NWM Group's revenues and profitability.

Moreover, innovations in biometrics, artificial intelligence, automation, cloud services, blockchain, cryptocurrencies and quantum computing may rapidly facilitate industry transformation.

Increasingly, many of NWM Group's products and services are, and will become, more technology intensive, including through digitalisation, automation and the use of artificial intelligence while needing to continue complying with applicable and evolving regulations. NWM Group's ability to develop or acquire digital solutions and their integration into NWM Group's structures, systems and controls has become increasingly important for retaining and growing NWM Group's market share and customer-facing businesses.

NWM Group's innovation strategy (which includes investments in its IT capability intended to improve its core infrastructure and customer interface capabilities as well as investments and strategic partnerships with third party technology providers) may not be successful or may not result in NWM Group offering innovative products and services in the future. Furthermore, current or future competitors may be more successful than NWM Group in implementing technologies for delivering products or services to their customers, which may adversely affect its competitive position. In addition, continued consolidation and/or technological developments

in the financial services industry could result in the emergence of new competitors or NWM Group's competitors gaining greater capital and other resources, including the ability to offer a broader and more attractive or better value range of products and services and geographic diversity. For example, new market entrants, including non-traditional financial services providers, such as technology conglomerates, may have competitive advantages in scale, and technology and may be able to develop and deliver financial services at a lower cost base.

NWM Group may also fail to identify future opportunities or fail to derive benefits from technological innovation, changing customer behaviour and changing regulatory demands. Competitors may be better able to attract and retain customers and key employees, have more effective IT systems, and 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 technology development initiatives, such investments may be insufficient or ineffective, especially given NWM Group's focus on business simplification and cost efficiencies. This could affect NWM Group's ability to offer innovative products or technologies to customers.

If NWM Group is unable to offer competitive, attractive and innovative products that are also profitable and released in a timely manner, it will lose market share, incur losses on some or all of its initiatives and possibly lose growth opportunities. For example, NWM Group is investing in the automation of certain solutions and interactions within its customer-facing businesses, including through artificial intelligence. There can be no certainty that such initiatives will allow NWM Group to compete effectively or will deliver the expected cost savings for NWM Group. In addition, the implementation of NatWest Group's strategy, delivery on its climate ambition and cost-controlling measures, may also have an impact on NWM Group's ability to compete effectively and provide satisfactory returns. Moreover, activist investors have increasingly become engaged and interventionist in recent years, which may pose a threat to NatWest Group's (and NWM Group's) strategic initiatives.

Any of the above may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

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

NatWest Group is subject to annual and other stress tests by its regulator in the UK. Stress tests are designed to assess the resilience of banks such as NWM Group to potential adverse economic or financial developments and ensure that they have robust, forward-looking capital planning processes that account for the risks associated with their business profile.

If the stress tests reveal that a bank's existing regulatory capital buffers are not sufficient to absorb the impact of the stress, then it is possible that 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 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.

Any of the above may have a material adverse effect on NatWest Group's (and NWM Group's) future results, financial condition, prospects, and/or reputation.

#### **NWM Group has significant exposure to counterparty and borrower risk including credit losses, which may have an adverse effect on NWM Group.**

Credit risk may arise from a variety of business activities, including, but not limited to: extending credit to customers 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 customers and credit exposures, which may, in turn, adversely affect NWM Group's profitability.

NWM N.V., a subsidiary of NWM Plc, has a portfolio of loans and loan commitments to Western European corporate customers. As a result, through the NWM N.V. business and NWM Group's other activities, NWM Group has exposure to many different sectors, customers and counterparties, and risks arising from actual or perceived changes in credit quality and the recoverability of monies due from borrowers and other counterparties are inherent in a wide range of NWM Group's businesses. These risks may be concentrated for those businesses for which customer income is heavily weighted towards a specific geographic region, industry or customer base. Furthermore, these risks are likely to increase due to a potential transfer of NatWest Group's Transfer Business (see 'The transfer of NatWest Group's Western European corporate portfolio involves certain risks').

The credit quality of NWM Group's borrowers and other counterparties may be affected by UK and global macroeconomic and political uncertainties, as well as prevailing economic and market conditions. Refer to 'NWM Group, its customers and its counterparties face continued economic and political risks and uncertainties in the UK and global markets, including as a result of inflation and interest rates, supply chain disruption, and geopolitical developments'.

Any further deterioration in these conditions or changes to legal or regulatory landscapes could worsen borrower and counterparty credit quality or impact the enforcement of contractual rights, increasing credit risk.

NWM Group is exposed to the financial sector, including sovereign debt securities, financial institutions, financial intermediation providers (including providing facilities to financial sponsors and funds, backed by assets or investor commitments) and securitised products (typically senior lending to special purpose vehicles backed by pools of financial assets). Concerns about, or a default by, a financial institution or intermediary could lead to significant liquidity problems and losses or defaults by other financial institutions or



intermediaries, since the commercial & financial soundness of many financial institutions and intermediaries is closely related and interdependent as a result of credit, trading, clearing and other relationships. Any perceived lack of creditworthiness of a counterparty or borrower may lead to market-wide liquidity problems and losses for NWM 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. Any of the above risks may also adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which NWM Group interacts on a regular 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 plc) for the subscription to its internal capital and MREL. The inability to do so may adversely affect NWM Group.' and 'NWM Group may not meet the prudential regulatory requirements for liquidity and funding or may not be able to adequately access sources of liquidity and funding, which could trigger the execution of certain management actions or recovery options.' As a result, adverse changes in borrower and counterparty credit risk may cause additional impairment charges under IFRS 9, increased repurchase demands, higher costs, additional write-downs and losses for NWM 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 judgement and estimation. This includes the formulation and incorporation of multiple forward-looking economic scenarios into ECL to meet the measurement objective of IFRS 9. The ECL provision is sensitive to the model inputs and economic assumptions underlying the estimate. Going forward, NWM Group anticipates observable credit deterioration of a proportion of assets resulting in a systematic uplift in defaults, which is mitigated by those economic assumption scenarios being reflected in the Stage 2 ECL across portfolios, along with a combination of post model overlays in both wholesale and retail portfolios reflecting the uncertainty of credit outcomes. See also, 'Risk and capital management – Credit risk'. A credit deterioration would also lead to RWA increases. Furthermore, the assumptions and judgements used in the MES and ECL assessment at 31 December 2024 may not prove to be adequate resulting in incremental ECL provisions for NWM Group.

NWM Group has exposure to shadow banking entities (i.e. entities which carry out activities of a similar nature to banks but without the same regulatory oversight), and is, as result, required to identify and monitor its exposure to these 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, and/or ensure effective reporting and governance in respect of shadow banking exposure, this may adversely affect NWM Group.

Any of the above may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

#### **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 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 to help address financial crime (criminal activities in the form of money laundering, terrorist financing, bribery and corruption, tax evasion and sanctions as well as external or internal fraud (collectively, 'financial crime')). NWM Group's models, and the parameters and assumptions on which they are based, are periodically reviewed.

Model outputs are inherently uncertain, because they are imperfect representations of real-world phenomena, are simplifications of complex real-world systems and processes, and are based on a limited set of observations. NWM Group may face adverse consequences as a result of actions or decisions based on models that are poorly developed, incorrectly implemented, outdated, non-compliant, or used inappropriately. This includes models that are based on inaccurate or non-representative data (for example, where there have been changes in the micro or macroeconomic environment in which NWM Group operates) or as a result of the modelled outcome being misunderstood, or used for purposes for which it was not designed. This could result in findings of deficiencies by NatWest Group's (and in particular, NWM Group's) regulators (including as part of NatWest Group's mandated stress testing), increased capital requirements, may render some business lines uneconomical, may require management action or may subject NWM Group to regulatory sanction, any of which in turn may also have an adverse effect on NWM Group and its customers.

Any of the above may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

#### **NWM Group's financial statements are sensitive to underlying accounting policies, judgements, estimates and assumptions.**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses, exposures and RWAs. While estimates, judgements and assumptions take into account historical experience and other factors (including market practice and expectations of future events that are believed to be reasonable under the circumstances), actual results may differ due to the inherent uncertainty in making estimates, judgements and assumptions (particularly those involving the use of complex models).

Further, accounting policy and financial statement reporting requirements increasingly require management to adjust existing judgements, estimates and assumptions for the effects of climate-related, sustainability and other matters that are inherently uncertain and for which there is little historical experience which may affect the comparability of NWM Group's future financial results with its historical results. Actual results may differ due to the inherent uncertainty in making climate-related and sustainability estimates, judgements and assumptions.

Accounting policies deemed critical to NWM Group's results and financial position, based upon materiality and significant judgements and estimates, involve a high degree of uncertainty and may have a material impact on its results. For 2024, these include fair value, deferred tax and conduct and litigation provisions. These are set out in the section 'Critical accounting policies'.

Any of the above may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

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

NWM Group prepares its consolidated financial statements in conformity with the requirements of the Companies Act 2006 and in accordance with IFRS as issued by the International Accounting Standards Board. Changes in accounting standards or guidance by accounting bodies or in the timing of their implementation, whether immediate or foreseeable, could result in NWM Group having to recognise additional liabilities on its balance sheet, or in further write-downs or impairments to its assets.

NWM Group's trading assets amounted to £48.9 billion as at 31 December 2024. 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, judgements 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.

From time to time, the International Accounting Standards Board may issue new accounting standards or interpretations that could materially impact how NWM Group calculates, reports and discloses its financial results and financial condition, and which may affect NWM Group capital ratios, including the CET1 ratio and the required levels of regulatory capital. 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'.

#### **NatWest Group is subject to regulatory oversight in respect of resolution, and NatWest Group could be adversely affected should the BoE in the future deem NatWest Group's preparations to be inadequate.**

NatWest Group is subject to regulatory oversight by the BoE and the PRA and is required (under the PRA rulebook) to carry out an assessment of its preparations for resolution, submit a report of the assessment to the PRA, and disclose a summary of this report. NatWest Group has dedicated significant resources towards the preparation of NatWest Group for a potential resolution scenario. In August 2024, the BoE communicated its assessment of NatWest Group's preparations and did not identify any areas for further enhancement, shortcomings, deficiencies or substantive impediments. NatWest Group (and NWM Group) could be adversely affected should future BoE assessments deem NatWest Group's preparations to be inadequate.

If future BoE assessments identify any areas for further enhancement, shortcomings, deficiencies or substantive impediments in NatWest Group's ability to achieve the resolvability outcomes or reveal that NatWest Group is not adequately prepared to be resolved, or does not have adequate plans in place to meet resolvability requirements, NatWest Group may be required to take action to enhance its preparations to be resolvable, resulting in additional costs and the dedication of additional resources. Such a scenario may have an impact on NatWest Group (and NWM Group) as, depending on the BoE's assessment, potential action may include, but is not limited to, restrictions on NatWest Group's maximum individual and aggregate exposures, a requirement to dispose of specified assets, a requirement to change its legal or operational structure, a requirement to cease carrying out certain activities and/or to maintain a specified amount of MREL.

Any of the above may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

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

The BoE, the PRA, the FCA, and HM Treasury (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 or partially-owned by the BoE; (iii) transfer of part of the assets, rights or liabilities of the relevant entity to one or more asset management vehicles for management of the transferor's assets, rights or liabilities; (iv) the write-down, conversion, transfer, modification, or suspension of the relevant entity's equity, capital instruments and liabilities; and (v) temporary public ownership of the relevant entity. These options may be applied to NatWest Group plc as the parent company or to NWM Group, as a subsidiary, where certain conditions are met (such as, whether the firm is failing or likely to fail, or whether it is reasonably likely that action will be taken (outside of resolution) that will result in the firm no longer failing or being likely to fail). Moreover, there are modified insolvency and administration procedures for relevant entities within NatWest Group, and the Authorities have the power to modify or override certain contractual arrangements in certain circumstances and amend the law for the purpose of enabling their powers to be used effectively and may promulgate provisions with retrospective applicability. Similar powers may also be exercised with respect to NWM N.V., in the Netherlands by the relevant Dutch and European regulatory authorities. Under the UK Banking Act 2009, the Authorities are generally required to have regard to specified objectives in exercising the powers provided for by the UK Banking Act 2009. One of the objectives (which is required to be balanced as appropriate with the other specified objectives) refers to the protection and enhancement of the stability of the financial system of the UK.

Moreover, the 'no creditor worse off' safeguard provides that where certain resolution actions are taken, the Authorities are required to ensure that no creditor is in a worse position than if the bank had entered into normal insolvency proceedings. Although, this safeguard may not apply in relation to an application of the separate write-down and conversion power relating to capital instruments in circumstances where a stabilisation power is not also used, the UK Banking Act 2009 still requires the Authorities to respect the hierarchy on insolvency when using the write-down and conversion power. Further, holders of debt instruments which are subject to the power may, however, have ordinary shares transferred to or issued to them by way of compensation.

Uncertainty exists as to how the Authorities may exercise their powers including the determination of actions to be undertaken in relation to the ordinary shares and other securities issued by NatWest Group (including NWM Group), which may depend on factors

outside of NWM Group's control. Moreover, the UK Banking Act 2009 provisions remain largely untested in practice, particularly in respect of resolutions of large financial institutions and groups.

If NatWest Group is at or is approaching the point such that regulatory intervention is required, there may correspondingly be a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

### **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 or disruption resulting from inadequate or failed internal processes, procedures, people or systems, or from external events, including legal and regulatory risks, third party processes, procedures, people or systems. NWM Group operates in several countries, offering a diverse range of products and services supported directly or indirectly by third party suppliers. As a result, operational risks or losses can arise from a number of internal or external factors (including for example, payment errors or financial crime and fraud), for which there is continued scrutiny by third parties on NWM Group's compliance with financial crime requirements; see 'NWM Group is exposed to the risks of various litigation matters, regulatory and governmental actions and investigations as well as remedial undertakings, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on NWM Group.' These risks are also present when NWM Group relies on critical service providers (suppliers) or vendors to provide services to it or its customers, as is increasingly the case as NWM Group outsources certain activities, including with respect to the implementation of technologies, innovation (such as cloud services and artificial intelligence) and responding to regulatory and market changes.

Operational risks also exist due to the implementation of NatWest Group's strategy, and the organisational and operational changes involved, including: NatWest Group's cost-controlling and simplification measures; continued digitalisation and the integration of artificial intelligence in the business; acquisition, divestments and other transactions; the implementation of recommendations from internal and external reviews with respect to certain governance processes, policies, systems and controls of NatWest Group entities; and conditions affecting the financial services industry generally (including macroeconomic and other geopolitical developments) as well as the legal and regulatory uncertainty resulting from these conditions. 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 and other NatWest Group entities for numerous critical services and operations, including, without limitation, property, technology, finance, accounting, treasury, legal, risk, regulatory compliance and reporting, financial crime, human resources, and certain other support and administrative functions. A failure by NatWest Bank Plc or other NatWest Group entities to adequately supply these services may expose NWM Group to critical business failure risk, increased costs, regulatory sanctions, and other liabilities. These and any increases in the cost of these services may adversely affect NWM Group.

NWM Group also faces operational risks as it continues to invest in the automation of certain solutions and customer interactions, including through artificial intelligence. Such initiatives may result in operational, reputational and conduct risks if the technology is not used appropriately, is defective or inadequate, or is not fully integrated into NWM Group's current solutions, systems and controls.

The effective management of operational risks is critical to meeting customer service expectations and retaining and attracting customer 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 may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

**NWM Group is subject to sophisticated and frequent cyberattacks, and compliance with cybersecurity and data protection regulations is becoming increasingly complex.**

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 networks, reinforcing the importance of the due diligence of, ongoing risk management of and 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 significant resources in additional capability designed to defend against emerging threats.

Third parties continue to make hostile attempts to gain access to, introduce malware (including ransomware) into, and exploit potential vulnerabilities of, financial services institutions' IT systems, including those of NWM Group. For example, in 2024, NatWest Group and its supply chain were subjected to a small number of attempted Distributed Denial of Service and ransomware attacks. These hostile attempts were addressed without material impact on NWM Group or its customers by deploying cybersecurity capabilities and controls that seek to manage the impact of any such attacks, and sustain availability of services for NWM Group's customers. Consequently, NWM Group continues to invest significant resources in developing and evolving cybersecurity capabilities and controls that are designed to mitigate the potential effect of such attacks. However, given the nature of the threat, there can be no assurance that these capabilities and controls will prevent the potential adverse effect of an attack from occurring. See also, 'NWM Group's operations are highly dependent on its complex IT systems and any IT failure could adversely affect NWM Group.'

Any failure in NWM Group's information and cybersecurity policies, procedures or controls, may result in significant financial losses, major business disruption, inability to deliver customer services, or loss of, or ability to access, data or systems or other sensitive information (including as a result of an outage) and may cause associated reputational damage. Any of these factors could increase costs (including costs relating to notification of, or compensation for customers and credit monitoring), result in regulatory investigations or sanctions being imposed or may affect NWM Group's ability to retain and attract customers. Regulators in the UK, US, Europe and Asia continue to recognise cybersecurity as an important systemic risk to the financial sector and have highlighted the need for financial institutions to improve their monitoring and control of, and resilience (particularly of critical services) to cyberattacks,

and to provide timely reporting or notification of them, as appropriate (including for example, the SEC cybersecurity requirements and the EU Digital Operational Resilience Act ('DORA')). Furthermore, cyberattacks on NWM Group's counterparties and suppliers may also have an adverse effect on NWM Group's operations.

Additionally, malicious third parties may induce employees, customers, third party providers or other users with access to NWM Group's systems to wrongfully disclose sensitive information to gain access to NWM Group's data or systems or that of NWM Group's customers or employees. Cybersecurity and information security events can derive from groups or factors such as: internal or external threat actors, human error, fraud or malice on the part of NWM Group's employees or third parties, including third party providers, or may result from technological failure (including defective, inadequate or inappropriately used artificial intelligence based solutions).

NWM Group expects greater regulatory engagement, supervision and enforcement to continue in relation to its overall resilience to withstand IT and IT-related disruption, either through a cyberattack or some other disruptive event. Such increased regulatory engagement, supervision and enforcement is uncertain in relation to the scope, cost, consequence and the pace of change, which may have an adverse effect on NWM Group. Due to NWM Group's reliance on technology, the adoption of innovative solutions, the integration of automated processes and artificial intelligence in its business, and the increasing sophistication, frequency and impact of cyberattacks, such attacks may have an adverse effect on NWM Group.

In accordance with applicable UK and EU data protection, and cybersecurity laws and regulations, NWM Group is required to ensure it implements timely appropriate and effective organisational and technological safeguards against unauthorised or unlawful access to the data of NWM Group, its customers 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 applicable requirements may result in financial losses, regulatory fines and investigations and associated reputational damage.

Any of the above may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

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

NWM Group relies on the availability, sourcing, and effective use of accurate and high quality data to support, monitor, evaluate, manage and enhance its operations, innovate its products offering, meet its regulatory obligations, and deliver its strategy. Investment is being made in data tools and analytics, including raising awareness around ethical data usage (for example, in relation to the use of artificial intelligence) and privacy across NWM Group. The availability and accessibility of current, complete, detailed, accurate and, wherever possible, machine-readable customer segment and sub-sector data, together with appropriate governance and accountability for data, is fast becoming a critical strategic asset, which is subject to increased regulatory focus.

Failure to have or be able to access that data or the ineffective use or governance of that data could result in a failure to manage and report important risks and opportunities or satisfy customers' expectations including the inability to deliver products and services. This could also 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. Any of the above 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 data protection laws could give rise to conduct and litigation risks and may increase the risk of operational challenges, losses, reputational damage or other adverse consequences due to inappropriate models, systems, processes, decisions or other actions.

Any of the above may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

#### **NWM Group relies on attracting, retaining, developing and remunerating diverse senior management and skilled personnel, 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 highly skilled and qualified diverse personnel, including senior management, directors, and key employees (including for technology and data focused roles), in a highly competitive market and under internal cost efficiency pressures.

The inability to compensate employees competitively and/or any reduction of compensation, the perception that 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, negative economic developments or other factors, may have an adverse effect on NWM Group's ability to hire, retain and engage well qualified employees, especially at a senior level, which could adversely affect 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 candidates for key management and non-executive roles, including non-executive directors with the right skills, knowledge and experience, or may increase the number of departures of existing employees. Moreover, a failure to foster a diverse and inclusive workforce may adversely affect NWM Group's employee engagement and the formulation and execution of its strategy, and could also have a negative effect on its reputation with customers, investors and regulators.

Some of NWM 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 may adversely affect NWM Group.

Any of the above may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

#### **NWM Group's operations are highly dependent on its complex IT systems 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 and fraud detection systems and controls, risk management, credit analysis and reporting, accounting, customer service and other IT systems, including cloud services providers (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 system failure, loss of service availability (including defective or inadequate automated processes or artificial intelligence based solutions), or breach of data security could potentially cause significant damage to: (i) important business services across NWM Group; and (ii) NWM Group's ability to provide services to its customers, which could result in reputational damage, significant compensation costs and regulatory sanctions (including fines resulting from regulatory investigations) or a breach of applicable regulations and could affect NWM Group's regulatory approvals, competitive position, business and brands, which could undermine its ability to attract and retain customers and talent.

NWM Group outsources certain functions as it innovates and offers new digital solutions to its customers. Outsourcing, alongside remote working, heighten the above risks. NWM Group uses 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 NWM Group or a third-party system fails or experiences any interruptions, all of which could result in business and customer interruption and related reputational damage, significant compensation costs, regulatory sanctions and/or a breach of applicable regulations.

In 2024, 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). NWM Group continues to develop and enhance digital services for its customers and seeks to improve its competitive position through enhancing controls and procedures and strengthening the resilience of services including cybersecurity. Any failure of these investment and rationalisation initiatives to achieve the expected results, due to cost challenges, poor implementation, defects, or otherwise, may adversely affect NWM Group's operations, its reputation and ability to retain or grow its customer business or adversely affect its competitive position, thereby negatively impacting NWM Group. See also, 'NWM Group has been in a period of, and may continue to be subject to, significant structural and other change'.

Any of the above may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

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

A failure in design, or adherence to, NatWest 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 delivery of its long-term strategy. NatWest Group's Enterprise-Wide Risk Management Framework sets out NWM Group's approach for managing risk within NWM Group including in relation to risk governance and risk appetite. A failure to adhere to this framework and to agreed risk appetite statements, or any material weaknesses or deficiencies in the framework's controls and procedures, could adversely affect NWM Group's financial condition and strategic delivery, as well as accurate reporting of risk exposures.

Financial risk management is highly dependent on the use and effectiveness of internal stress tests and models and ineffective risk management may arise from a wide variety of factors, including lack of transparency or incomplete risk reporting, manual processes and controls, inaccurate data, inadequate IT systems, unidentified conflicts or misaligned incentives, lack of accountability control and governance, incomplete risk monitoring (including trade surveillance) and failures of systems to properly process all relevant data, risks related to unanticipated behaviour or performance in algorithmic trading and management, insufficient challenges or assurance processes, or a failure to commence or timely complete risk remediation projects. Failure to manage risks effectively, or within regulatory expectations, could adversely affect NWM Group's reputation or its relationship with its regulators, customers, 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 NWM Group inadvertently facilitating financial crime which may result in regulatory investigation, sanction, litigation, fines and/or reputational damage. Financial crime continues to evolve, whether through fraud, scams, cyberattacks or other criminal activity. These risks are exacerbated as NWM Group continues to innovate its product offering and increasingly offers digital solutions to its customers. NatWest Group (including 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, including investment in new technologies and capabilities to further enhance customer due diligence, transaction monitoring, sanctions and anti-bribery and corruption systems. A number of NWM 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, customer needs or do not reflect NWM Group's strategy, ineffective product management, unethical or inappropriate use of data, information asymmetry, implementation and utilisation of new technologies, outsourcing of customer service and product delivery, inappropriate behaviour towards customers, customer outcomes, the possibility of mis-selling of financial products and mishandling of customer complaints. Some of these risks have materialised in the past and ineffective management and oversight of conduct risks may lead to further remediation and regulatory intervention or enforcement. NWM Group's businesses are also exposed to risks from employee, contractor, or service providers misconduct including non-compliance with policies and regulations, negligence or fraud (including financial crimes and fraud), any of which could result in regulatory fines or sanctions and serious reputational or financial harm to NWM Group.

Remote working arrangements for NWM Group employees place heavy reliance on the IT systems that enable remote working and may place additional pressure on NWM Group's ability to maintain effective internal controls and governance frameworks and increase operational risk. 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.

In addition, the UK's Net Zero Strategy and NatWest Group's (including NWM Group) strategy relating to climate and sustainability are important drivers as to how NWM Group integrates climate (including physical and transition risks) and other sustainability related risks into its risk management framework and practices (including for financing activities or engaging with counterparties (including suppliers)). Furthermore, legislative and regulatory authorities are publishing expectations as to how banks should prudently manage and transparently disclose climate and other sustainability-related risks. Any failure of NWM Group to fully and timely embed climate and other sustainability-related risks into its risk management practices and framework to appropriately identify, assess, prioritise and monitor such risks may have an adverse effect on NWM Group. Similarly, if NWM Group is unable to apply the appropriate product governance processes in line with NatWest Group's (including NWM Group) strategy and applicable legal and regulatory requirements and expectations, it may have an adverse effect on NWM Group.

NWM Group seeks to embed a risk awareness culture across the organisation and has implemented policies and allocated new resources across all levels of the organisation to manage and mitigate conduct risk and expects to continue to invest in risk management, including the ongoing development of a NatWest Group risk management strategy in line with regulatory expectations. However, such efforts may not insulate NWM Group from 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, and may continue to be subject to, significant structural and other change.'

Any failure in NWM Group's risk management framework may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation and may result in the inability to achieve its strategic objectives for its customers, 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 or the public's expectations, including with respect to NatWest Group's strategy and related targets, NWM Group's strategy, or 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 harm to its brand, which may be detrimental to NWM Group's business, including its ability to build or sustain business relationships with customers, stakeholders and regulators, and may cause low employee morale, regulatory censure or reduced access to, or an increase in the cost of, funding. Reputational risk may arise whenever there is, or there is perceived to be, a material lapse in standards of integrity, controls, compliance, customer or operating efficiency, or regulatory or press scrutiny, and may adversely affect NWM Group's ability to attract and retain customers.

In particular, NWM Group's ability to attract and retain customers, and talent, and engage with counterparties may be adversely affected by factors including: negative public opinion resulting from the actual or perceived manner in which NWM 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.

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 a Reputational Risk Policy and framework to identify, measure and manage material reputational risk exposures, there is a risk that it may not be successful in avoiding or mitigating damage to its business or its various brands from reputational risk.

Any of the above aspects of reputational risk may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

#### **Legal and regulatory 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, guidelines, corporate governance practice and disclosure requirements, administrative actions and policies in each jurisdiction in which it operates, which represents ongoing compliance and conduct risks. Many of these are constantly evolving and are subject to further material changes, which may increase compliance and conduct risks, particularly as the laws of different jurisdictions (including those of the EU/EEA and UK) diverge. NWM Group expects government and regulatory intervention in the financial services industry to remain high for the foreseeable future.

Regulators and governments continue to focus on reforming the prudential regulation of the financial services industry and the manner in which the business of financial services is conducted. Measures have included: enhanced capital, liquidity and funding requirements, through initiatives such as the Basel 3.1 standards implementation (and any resulting effect on RWAs and models), the UK ring-fencing regime, the strengthening of the recovery and resolution framework applicable to financial institutions in the UK, the EU and the US, financial industry reforms (such as the FSMA 2023), corporate governance requirements, rules relating to the compensation of senior management and other employees, enhanced data protection and IT resilience requirements (such as DORA), financial market infrastructure reforms, enhanced regulations in respect of the provision of 'investment services and activities'.

There is also increased regulatory focus in certain areas, including conduct, model risk governance, consumer protection in retail or

other financial markets, competition and disputes regimes, anti-money laundering, anti-corruption, anti-bribery, anti-tax evasion, payment systems, sanctions and anti-terrorism laws and regulations.

In addition, there is significant oversight by competition authorities of the jurisdictions in which NWM Group operates. The competitive landscape for banks and other financial institutions in the UK, EU/EEA, Asia and the US is rapidly changing. Recent regulatory and legal changes have resulted and may continue to result in new market participants and changed competitive dynamics in certain key areas. Regulatory and competition authorities, including the CMA, are also looking at and focusing more on how they can support competition and innovation in digital and other markets. Recent regulatory changes and heightened levels of public and regulatory scrutiny in 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.

Moreover, uncertainties remain as to the extent to which EU/EEA laws will diverge from UK law. For example, bank regulation in the UK may diverge from European bank regulation following the enactment of the Financial Services and Markets Act 2023 ('FSMA 2023') and the Retained EU Law (Revocation and Reform) Act 2023. In particular, FSMA 2023 provides for the revocation of retained EU laws relating to financial services regulation, but sets out that this process will likely take a number of years and that the intention is that specific retained EU laws will not be revoked until such time as replacement regulatory rules are in place. The actions taken by regulators in response to any new or revised bank regulation and other rules affecting financial services, may adversely affect NWM Group, including its business, non-UK operations, group structure, compliance costs, intragroup arrangements and capital requirements.

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

- general changes in government, regulatory, competition or central bank policy (such as changes to the BoE Levy (including as a result of the proposed Bank Resolution (Recapitalisation) Bill), 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 or appropriation of assets;
- new or increased regulations relating to customer data protection as well as IT controls and resilience, such as the India Digital Personal Data Protection Act 2023;
- the introduction of, and changes to, taxes, levies or fees applicable to NWM Group's operations, such as changes in tax rates, changes in the scope and administration of the Bank Levy, increases in the bank corporation tax surcharge in the UK, restrictions on the tax deductibility of interest payments or further restrictions imposed on the treatment of carry-forward tax losses that reduce the value of deferred tax assets and require increased payments of tax;
- the potential introduction by the BoE 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;
- regulatory enforcement in the form of PRA imposed financial penalties for failings in banks' regulatory reporting governance and controls, and ongoing regulatory scrutiny; the PRA's thematic reviews of the governance, controls and processes for preparing regulatory returns of selected UK banks, including NatWest Group (of which NWM Group is a part of);
- changes in policy and practice regarding enforcement, investigations and sanctions, supervisory activities and reviews;
- 'Dear CEO' and similar letters issued by supervisors and regulators from time to time ;
- recent or proposed US regulations around cybersecurity incidents, climate disclosures, and other climate and sustainability-related rules;
- increased risk of legal action against NWM Group for financing or contributing to climate change and nature-related degradation, or greenwashing;
- new or increased regulations relating to financial crime; and
- any regulatory requirements relating to the use of artificial intelligence and large language models across the financial services industry (such as the European Union Artificial Intelligence Act).

Any of these developments (including any failure to comply with or correctly interpret new rules and regulations) could also have an adverse effect 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 reputation, ability to engage in effective business, capital and risk management planning.

Any of the above may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

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

NWM Group's operations are diverse and complex and it operates in legal and regulatory environments that expose it to potentially

significant civil actions (including those following on from regulatory sanction), as well as criminal, regulatory and governmental proceedings. NWM 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, Asia, Europe and other jurisdictions.

NWM Group is, has been or will likely be involved in a number of significant legal and regulatory actions, including investigations, proceedings and ongoing reviews (both formal and informal) by governmental law enforcement and other agencies and litigation proceedings, including in relation to the offering of securities, conduct in the foreign exchange market, the setting of benchmark rates such as LIBOR and related derivatives trading, the issuance, underwriting, and sales and trading of fixed-income securities (including government securities), product mis-selling, customer mistreatment, anti-money laundering, antitrust, VAT recovery, record keeping, reporting, and various other issues. There is also an increasing risk of new class action claims being brought against NWM Group in the Competition Appeal Tribunal for breaches of competition law, as well as a risk of activist actions, particularly relating to climate change and sustainability-related matters. 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 includes NWM Plc's December 2021 spoofing-related guilty plea in the United States that was agreed with the US Department of Justice ('DOJ'), and involves a multi-year period of probation, an independent corporate monitor and the ongoing implementation of recommendations made by it, and commitments to compliance programme reviews and improvements, and reporting obligations. In the event that NWM Plc does not meet its obligations to the DOJ, this may lead to adverse consequences such as findings that NWM Plc violated its probation term and possible re-sentencing, increased costs from any extension of monitorship and/or the period of the probation, amongst other consequences. For additional information relating to this 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.

Recently resolved matters or adverse outcomes or resolution of current or future legal or regulatory matters, could increase the risk of greater regulatory and third-party scrutiny and/or result in future legal or regulatory actions, and could have material financial, reputational, or collateral consequences for 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 and implications of which are uncertain. Disqualification from carrying on any activities, whether automatically as a result of the resolution of a particular matter or as a result of the failure to obtain such licences or waivers could adversely affect NWM Group's business, in particular in the US. This in turn and/or any fines, settlement payments or penalties may have an adverse effect on NWM Group. 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. In addition, any failure to administer conduct redress processes adequately, or to handle individual complaints fairly or appropriately, could result in further claims as well as the imposition of additional measures or limitations on NWM Group's operations, additional supervision by NWM Group's regulators, and loss of investor confidence.

Any of the above may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

#### **Changes in tax legislation (or application thereof) 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', 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 or the application thereof (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 £83 million as at 31 December 2024. 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.

Any of the above may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

#### **Climate and sustainability-related risks**

##### **NWM Group and its Value Chain face climate and sustainability-related risks that may adversely affect NWM Group.**

Climate change has been identified as a source of systemic risk, with potentially severe consequences for financial institutions. The financial impacts of climate and sustainability-related risks are expected to be widespread and may disrupt the orderly functioning of financial markets and have an adverse effect on financial institutions, including NWM Group.

Financial and non-financial risks from climate change can arise through physical and transition risks. In addition, physical and transition risks can trigger further losses, stemming directly or indirectly from legal claims, litigation and conduct liability (referred to as 'liability risk').

Whilst there are significant uncertainties relating to the location, magnitude and timing of climate-related physical risks, scientific research suggests physical risks may occur in increasing frequency and severity. Climate-related events like flood, wildfires and climatic changes can damage assets and disrupt operations, leading to increased costs, changes in asset values and loan defaults.

Damage or disruption to NWM Group customers' and counterparties' (including suppliers') properties, premises and operations could disrupt business, result in the deterioration of the value of collateral or insurance shortfalls, impair asset values and negatively impact the creditworthiness of customers and their ability and/or willingness to pay fees, afford new products or repay their debts, leading to increased default rates, delinquencies, write-offs and impairment charges in NWM Group's portfolios. In addition, NWM Group's premises and operations, or those of its critical outsourced functions may experience damage or disruption leading to increased costs for NWM Group.

To meet the goals of the UK's Net Zero Strategy by 2050 will require a net-zero transition across all sectors of the UK economy. The timing and pace of the transition to a net-zero economy will depend on many factors and uncertainties and may be near-term, gradual and orderly, or delayed, rapid and disorderly, or a combination of these. A transition to a net-zero economy requires significant and timely policy and regulatory changes, immediate actions from national and regional governments, new technological innovations and changes to supply and demand systems within industries. The transition to a net-zero economy may also trigger changes in consumer behaviour and market sentiment. In addition, there is significant uncertainty about how climate change and the world's transition to a net-zero economy will unfold over time and how and when climate and other sustainability-related risks will manifest. These timeframes are considerably longer than NWM Group's historical and current strategic, financial, resilience and investment planning horizons.

NWM Group and its value chain (including its investors, customers, counterparties (including its suppliers), business partners and employees) ('NWM Group's Value Chain') may face financial and non-financial risks arising from broader (i.e. non-climate-related) sustainability issues such as risks relating to nature loss (such as the loss and/or decline of the state of nature including but not limited to, the reduction of any aspect of biological diversity and other forms of environmental degradation such as air, water and land pollution, soil quality degradation and water stress). NatWest Group recognises that climate and nature-related risks are interlinked and therefore NatWest Group aims to work towards enhancing processes and capabilities to include assessments of nature-related risks and opportunities within governance, risk management and stakeholder engagement practices.

Climate and nature-related risks may:

- adversely affect the broader economy, influencing interest rates, inflation and growth, impacting profitability and stability;
- adversely affect asset pricing and valuations of NWM Group's own and other securities and, in turn, the wider financial system;
- adversely affect economic activities directly (for example through lower corporate profitability or the devaluation of assets) or indirectly (for example through macro-financial changes);
- adversely affect the viability or resilience of business models over the medium to longer term, particularly those business models most vulnerable to climate and sustainability-related risks;
- trigger losses stemming directly or indirectly from liability risks and/or reputational damage, including as a result of adverse media coverage or activists, the public or NWM Group's Value Chain associating NWM Group or its customers with adverse climate and sustainability-related issues;
- adversely affect NWM Group's ability to contribute to deliver on NatWest Group's strategy, including achieving its climate ambitions and targets; and
- exacerbate other risk categories to which NWM Group is exposed, including credit risk, operational risk (including business continuity), market risk (both traded and non-traded), liquidity and funding risk (for example, net cash outflows or depletion of liquidity buffers), reputational risk, pension risk, regulatory compliance risk and conduct risk.

In addition to nature-related risks, NWM Group and NWM Group's Value Chain may face financial and non-financial risks arising from other sustainability-related issues such as (i) risks related to social issues (including human rights), for example, negative impact on people's standard of living and health, political and geopolitical tensions and conflict endangering people's lives and security, displacement of communities, the violation of indigenous people's rights, unjust working conditions and labour rights breaches (including discrimination, lack of diversity and inclusion, inequality, gender/ethnicity pay gap and payments under the minimum wage), modern slavery, accessible banking and financial inclusion, financial crime, data privacy breaches, innovation, digitalisation and AI, and lack of support for the vulnerable; and (ii) governance-related risks (including board diversity, ethical corporate culture, executive compensation and management structure).

There is also growing expectation from customers, investors, policymakers, regulators and society of the need for a "just transition" – in recognition that the transition to net zero should happen in a way that is as fair and inclusive as possible to everyone concerned. Although NatWest Group (including NWM Group) continues to evaluate and assess whether and, if so, how it integrates 'just transition' considerations into its strategy and decision-making, a failure (or perception of failure) by NatWest Group (including NWM Group) to sufficiently factor these considerations into existing products and service offerings may adversely affect NatWest Group (including NWM Group), including NatWest Group's (including NWM Group) reputation.

If NWM Group fails to identify, assess, prioritise, monitor, react to and prevent appropriately: (i) climate and sustainability-related impacts, risks and opportunities; and (ii) changing regulatory and market expectations and societal preferences that NWM Group and NWM Group's Value Chain face, in a timely manner or at all, this may have a material adverse effect on NWM Group's business, future results, financial condition, prospects (including cash flows, access to finance or cost of capital over the short, medium or long term), reputation or the price of its securities.

**NatWest Group's strategy relating to climate change, ambitions, targets and transition plan entail significant execution and/or reputational risks and are unlikely to be achieved without significant and timely government policy, technology and customer behavioural changes.**

At NatWest Group's Annual General Meeting in April 2022, ordinary shareholders passed an advisory 'Say on Climate' resolution

endorsing NatWest Group's previously announced strategic direction on climate change, including its ambitions to at least halve the climate impact of its financing activity by 2030, achieve alignment with the 2015 Paris Agreement and reach net zero across its financed emissions, assets under management and operational value chain by 2050. NatWest Group may also announce other climate and sustainability-related ambitions, targets and initiatives and/or retire or change existing ones.

Making the changes necessary by NWM Group to contribute to achieve NatWest Group's climate ambitions and targets and executing its transition plan, together with the active management of climate and sustainability-related risks and other regulatory, policy and market changes, is likely to necessitate material changes to NWM Group's business, operating model, its existing exposures and the products and services NWM Group provides to its customers (potentially on accelerated timescales). NWM Group may be required to: (i) in the medium and long term significantly reduce its financed emissions and its exposure to customers that do not align with a transition to net zero or do not have a credible transition plan in place, and (ii) divest or discontinue certain activities for regulatory or legal reasons or in response to the transition to a less carbon-dependent economy. Increases in lending and financing activities may wholly or partially offset some or all these reductions, which may increase the extent of changes and reductions necessary.

Making the necessary changes, or failing to make the necessary changes in a timely manner, or at all to achieve NatWest Group's climate ambitions and targets and executing its transition plan, together with the active management of climate and sustainability-related risks and other regulatory, policy and market changes may have an adverse effect on NatWest Group and NatWest Group's ability to achieve its climate and financial ambitions and targets, take advantage of climate change-related opportunities and generate sustainable returns.

NWM Group's ability to contribute to achieving NatWest Group's strategy, including contributing to achieve NatWest Group's climate ambitions and targets, will significantly depend on many factors and uncertainties beyond NWM Group's control. These include: (i) the extent and pace of climate change, including the timing and manifestation of physical and transition risks; (ii) the macroeconomic environment; (iii) the effectiveness of actions of governments, legislators, regulators and businesses; (iv) the response of the wider society, NWM Group's Value Chain and other stakeholders to mitigate the impact of climate and sustainability-related risks; (v) changes in customer behaviour and demand; (vi) appetite for new markets, credit appetite, concentration risk appetite, lending opportunities; (vii) developments in the available technology; (viii) the rollout of low carbon infrastructure; and (ix) the availability of accurate, verifiable, reliable, auditable, consistent and comparable data.

These external factors and other uncertainties will make it challenging for NWM Group to contribute to achieving NatWest Group's climate ambitions and targets and there is a significant risk that all or some of these ambitions and targets will not be achieved or not achieved within the intended timescales.

NWM Group's ability to contribute to achieving NatWest Group's climate ambitions and targets depends to a significant extent on the timely implementation and integration of appropriate government policies. The UK Climate Change Committee ('UK CCC') 2024 Progress Report to the UK Parliament states that the UK is not on track to hit its legislated target to reduce emissions in 2030 by 68% compared to 1990 levels and only a third of the emission reductions required to achieve the UK's 2030 target are currently covered by credible plans, with action needed across all sectors of the economy. NatWest Group's climate ambitions are unlikely to be achieved without timely and appropriate government policy and technology developments, as well as supplier, customer and societal response required to support the transition.

The UK CCC is expected to publish its Seventh Carbon Budget on 26 February 2025. NatWest Group expects this to take into account new UK policy initiatives announced by the UK government in November 2024 and NatWest Group plans to review its climate ambitions in the context of the UK's Seventh Carbon Budget, once released. Climate and sustainability matters are also becoming increasingly politicised and polarised. Some of NWM Group's customers, investors or other stakeholders may decide not to do business with NWM Group because, according to their own assessment, NatWest Group's (including NWM Group) strategy, ambitions and targets related to climate and sustainability do not meet their expectations, either for lacking the necessary ambition or progress, or for being perceived as overly concerned about sustainability.

Any delay or failure by NWM Group in putting into effect, making progress against or meeting NatWest Group's climate and sustainability-related ambitions, targets and plans may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation and may increase the climate and sustainability-related risks NWM Group faces.

**There are significant limitations related to accessing accurate, reliable, verifiable, auditable, consistent and comparable climate and other sustainability-related data that contribute to substantial uncertainties in accurately modelling and reporting on climate and sustainability information, as well as making appropriate important internal decisions.**

Accurate assessment and reporting of climate and sustainability-related impacts, risks, opportunities and other climate and sustainability-related matters, and related metrics depends on access to accurate, reliable, verifiable, auditable, consistent and comparable data from counterparties (including suppliers), customers, or other third parties. Data of adequate quality may not be generally available or, if available, may not be accurate, reliable, verifiable, auditable, consistent, or comparable. In the absence of other sources, reporting on climate and sustainability-related matters (including reporting on NatWest Group's (including NWM Group) financed and facilitated emissions) may be based on estimated or aggregated information developed by third parties (including customers) that may be prepared in an inconsistent way using different methodologies, interpretations, or assumptions that may not be accurate for a given counterparty (including supplier) or customer. There may also be data gaps and limitations that are addressed using estimates based on assumptions about matters that are inherently uncertain or proxy data, such as sectoral averages or use of emissions estimated by a third party, again developed in a variety of ways and in some cases not in a timely manner causing data to be potentially outdated at the time when they are used.

Significant risks, uncertainties and variables are inherent in the assessment, measurement and mitigation of climate and sustainability-related risks. These include data quality gaps and limitations mentioned above, as well as the pace at which climate science, greenhouse gas accounting standards and various emissions reduction solutions develop. In addition, there is significant uncertainty about how climate change and the world's transition to a net-zero economy will unfold over time and how and when climate and



sustainability-related risks will manifest. These timeframes are considerably longer than NWM Group's historical and current strategic, financial, resilience and investment planning horizons.

As a result, NWM Group's assessment of climate and sustainability impacts, risks, opportunities and other climate and sustainability-related matters is likely to evolve and its climate and sustainability-related disclosures may be amended, updated or restated in the future as the quality and completeness of NWM Group's data and methodologies continue to improve.

These data quality challenges, gaps and limitations may also have a material impact on NWM Group's ability to make effective business decisions about climate and sustainability-related impacts, risks, opportunities and other climate and sustainability-related matters, including risk management decisions, to comply with disclosure requirements and to monitor and report progress in meeting ambitions, targets and pathways all of which may have an adverse effect on NWM Group.

Climate-related risks are challenging to model due to their forward-looking nature, the lack of and/or quality of historical testing capabilities, lack of accuracy, standardisation and incompleteness of emissions and other climate and sub-sector related data and the immature nature of risk measurement and modelling methodologies. As a result, it is very difficult to predict and model the impact of climate-related risks into precise financial and economic outcomes. The evaluation of climate-related risk exposure and the development of associated potential risk mitigation techniques also largely depend on the choice of climate scenario modelling methodology and the assumptions made which involves a number of risks and uncertainties.

Accordingly, these risks and uncertainties coupled with significantly long timeframes make the outputs of climate-related risk modelling, climate-related targets (including emission reduction targets) and pathways, inherently more uncertain than outputs modelled for traditional financial planning cycles based on historical financial information.

Capabilities within NWM Group to appropriately assess, model, report and manage climate and sustainability-related impacts and risks and the suitability of the assumptions required to model and manage climate and sustainability-related risks appropriately continue to develop and mature. Even when those capabilities are appropriately developed, the high level of uncertainty regarding any assumptions modelled, the highly subjective nature of risk measurement and mitigation techniques, incorrect or inadequate assumptions and judgements and data quality gaps and limitations may lead to inadequate risk management information and frameworks, or ineffective business adaptation or mitigation strategies or regulatory non-compliance.

Any of the above may have a material adverse effect on NWM Group's business, future results, financial condition, prospects, reputation and the price of its securities.

**NWM Group is becoming subject to more extensive, and sophisticated climate and other sustainability-related laws, regulation and oversight and there is an increasing risk of regulatory enforcement, investigation and litigation.**

NWM Group and its subsidiaries are increasingly becoming subject to more extensive, and sophisticated sustainability-related laws and regulations in the UK, EU and the US, including in relation to mandatory climate and other sustainability reporting and due diligence, climate transition plan, product labelling and combatting "greenwashing".

Compliance with these complex, evolving and often diverging legal, regulatory and supervisory requirements and voluntary standards and initiatives is likely to require NWM Group to implement significant changes to its business models, IT systems, products, governance, internal controls over financial and non-financial reporting, disclosure controls and procedures, modelling capability and risk management systems, which may increase the cost of doing business, result in higher capital requirements, and entail additional change risk and increased compliance, regulatory sanctions, conduct and litigation (including settlements) costs. A failure by NWM Group or any of its subsidiaries to comply with these climate and sustainability-related legal, regulatory and supervisory requirements and standards and meet expectations of NWM Group's Value Chain in this respect may result in investigations and regulatory sanction each of which may have an adverse effect on NWM Group and the successful implementation of NatWest Group's (including NWM Group) strategy relating to climate and sustainability.

Certain non-UK subsidiaries of NWM Group in the EU and elsewhere may also be subject to EU, national and other climate and sustainability laws and regulations which in some cases may differ. Divergence between UK, EU, US and other climate and sustainability-related legal, regulatory and supervisory requirements and their interpretation may increase the cost of doing business (including increased operating costs) and may result in regulatory non-compliance and litigation risk. Failure by NWM Group to comply with these divergent legal, regulatory and supervisory requirements (if applicable to NWM Group) may have an adverse effect on NWM Group's ability to contribute to the successful implementation of NatWest Group's strategy relating to climate change including when contributing to setting up NatWest Group's climate ambitions and targets and to executing NatWest Group's transition plan and may result in NWM Group and/or its subsidiaries not meeting investors' expectations.

Increasing new climate and sustainability-related jurisprudence, laws and regulations in the UK and other jurisdictions, regulatory scrutiny, expose financial institutions, including NWM Group, to face increasing litigation, conduct, enforcement and contract liability risks related to climate change, nature-related degradation, human rights violations and other social, governance and sustainability-related issues. Furthermore, regulatory and enforcement activity around climate and sustainability initiatives that promote more extensive sustainability-related requirements and those that impose divestment and other sanctions against financial institutions that implement climate and sustainability-related initiatives is becoming increasingly divergent and conflicting between jurisdictions, in particular in the United States. Any failure of NWM Group to develop and implement robust and effective governance, controls and procedures over climate and sustainability-related impact assessment, disclosure, reporting and other communications and sustainability-related claims (including in relation to NWM Group's products, services and strategy) and comply with them in line with applicable legal and regulatory requirements and expectations, may give rise to increased complaints, regulatory enforcement (including sanctions), investigation and litigation and may adversely affect NWM Group's regulatory compliance, investor base and reputation.

Furthermore, there is a risk that shareholders, campaign groups, customers and activist groups could seek to take legal action against

NWM Group for financing, facilitating or contributing to actual or perceived harm to the environment or people, climate change, nature-related degradation and human rights violations, failure to implement or follow adequate governance procedures and for not supporting the principles of 'just transition' (i.e. maximising the social benefits of the transition, mitigating the social risks of the transition, empowering those affected by the change, anticipating future shifts to address issues up front and mobilising investments from the public and private sectors).

Any of the above may have a material adverse effect on NWM Group's business, future results, financial condition, prospects, reputation and the price of its securities.

**Legal Entity Identifier: RR3QWICWWIPCS8A4S074**