Risk and capital managment

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Risk management framework

Where marked as audited in the section header, certain information in the Risk and capital management section (pages 172 to 277) is within the scope of the Independent auditor's report.

Introduction

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

The framework ensures that NatWest Group's principal risks – which are detailed in this section – are appropriately controlled and managed. It sets out the standards and objectives for risk management as well as defining the division of roles and responsibilities. This seeks to ensure a consistent approach to risk management across NatWest Group and its subsidiaries. It aligns risk management with NatWest Group's overall strategic objectives. The framework, which is designed and maintained by NatWest Group's independent Risk function, is owned by the Chief Risk Officer. It is reviewed and approved annually by the NatWest Group Board. The framework incorporates risk governance, the three lines of defence operating model and the Risk function's mandate.

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

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

In addition, there is a process to identify and manage top and emerging risks, which are those that could have a significant negative impact on NatWest Group's ability to meet its strategic objectives.

Both top and emerging risks may incorporate aspects of – or correlate to – a number of principal risks and are reported alongside them to the Board on a regular basis.

Culture

The approach to risk culture, under the banner of intelligent risk-taking, ensures a focus on robust risk management behaviours and practices. This underpins the strategy and values across all three lines of defence, enables NatWest Group to support better customer outcomes, develop a stronger and more sustainable business and deliver an improved cost base.

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

Colleagues are expected to:

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

The target intelligent risk-taking behaviours are embedded in NatWest Group's Critical People Capabilities and are clearly aligned to the core values of inclusive, curious, robust, sustainable and ambitious.

These aim to act as an effective basis for a strong risk culture because the Critical People Capabilities form the basis of all recruitment and selection processes.

Training

Enabling employees to have the capabilities and confidence to manage risk is core to NatWest Group's learning strategy. NatWest Group offers a wide range of learning, both technical and behavioural, across the risk disciplines.

This training may be mandatory, role-specific or for personal development. Mandatory learning for all staff is focused on keeping employees, customers and NatWest Group safe. This is easily accessed online and is assigned to each person according to their role and business area. The system allows monitoring at all levels to ensure completion.

Our Code

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

– These principles cover conduct-related issues as well as wider business activities. They focus on desired outcomes, with practical guidelines to align the values with commercial strategy and actions. The embedding of these principles facilitates sound decision-making and a clear focus on good customer outcomes.
– Any employee falling short of the expected standards would be subject to internal disciplinary policies and procedures and if appropriate, the relevant authority would be notified. The accountability review process is used to assess how this should be reflected in variable pay outcomes for the individuals concerned (for more information on this process refer to page 143). The NatWest Group remuneration policy ensures that the remuneration arrangements for all employees reflect the principles and standards prescribed by the PRA rulebook and the FCA handbook.

Governance

Committee structure

The diagram shows NatWest Group's governance structure in 2024 and the main purposes of each committee.

NatWest Group plc Board

Provides leadership of NatWest Group within a framework of prudent and effective controls which enable risk to be assessed and managed. Reviews and approves the Enterprise-Wide Risk Management Framework (EWRMF) (including NatWest Group's risk appetite framework) and approves the risk appetite for principal risks. Monitors performance against risk appetite, considers material risks, reviews the effectiveness of risk management and internal control systems.

Group Board Risk Committee

Provides oversight and advice to the Board on current and potential future risk exposures; future risk profile including risk appetite; and the approval and effectiveness of the EWRMF. Reviews performance relative to risk appetite; the effectiveness of internal controls required to manage risk; all material risk exposures and management's recommendations to monitor, control and mitigate them, including for all principal risks and emerging threats. Approves the key risk policies[1]. Approves the enterprise-wide risk management strategy (EWRMS) and oversees its effective delivery. Reviews and recommends to the Board the assumptions, scenarios and metrics used for stress tests.

Group Audit Committee

Assists the Board in carrying out its responsibilities relating to internal control functions. Reviews NatWest Group's internal controls systems relating to financial management and compliance with laws and/or regulations relating to financial reporting, accounting issues, and safeguarding of assets. Reviews the procedures for monitoring the effectiveness of these controls.

Group Executive Risk Committee

Supports the NatWest Group CRO and other accountable executives in discharging risk management accountabilities. Reviews, challenges and debates all material risk exposures, including for all principal risks, and the performance of NatWest Group relative to risk appetite. Reviews reports on emerging threats. Reviews the EWRMF, key risk policies[1] and EWRMS and supports their recommendation to Group BRC. Drives effective implementation and embedding of the EWRMF in NatWest Group.

Group Asset & Liability Management Committee[2]

Supports the Group CFO in overseeing the effective management of NatWest Group's current and future balance sheet, in line with Board-approved risk appetite, under normal and stress conditions. Supports the Group CFO's and Group CRO's recommendation to Group BRC of the assumptions, scenario themes and expanded metrics used for stress tests.

Group Executive Disclosure Committee[3]

Supports the Group CFO in discharging their individual accountabilities, including the review of all material financial and non-financial disclosures made by NatWest Group to ensure that they are accurate, complete and fairly represent the business and financial condition of NatWest Group with no material misstatements or omissions.

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

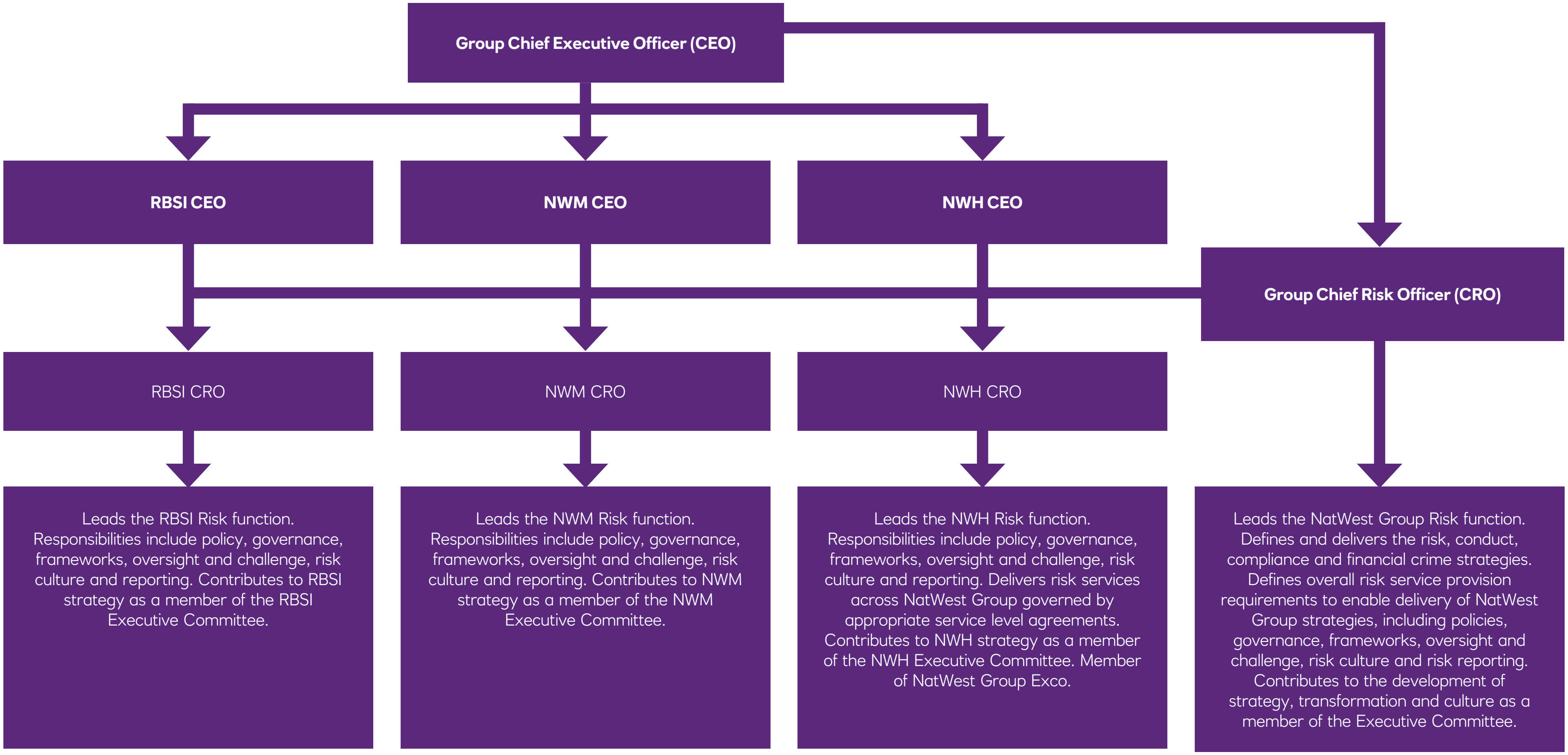
(2) In addition, the Group Technical Asset & Liability Management Committee, chaired by the Group Treasurer, provides oversight of capital and balance sheet management in line with approved risk appetite under normal and stress conditions. Reviews and challenges the financial strategy, risk management, balance sheet and remuneration and policy implications of NatWest Group's pension schemes.

(3) The EDC Disclosures Steering Group was established by the Group CFO to (i) review and approve NatWest Group's responses to Environmental, Social and Governance (ESG) surveys where ESG content is considered material to investors or decision-useful to users of the reports; (ii) to assess whether NatWest Group should respond to and review new ad hoc survey requests; (iii) to review and approve ESG disclosures published on NatWest Group's website and externally that are material to investors or decision useful to users of the reports; and (iv) to review and recommend to the EDC, ESG related disclosures in the quarterly, and annual suite of results releases.

Risk management framework continued

Risk management structure

The diagram shows NatWest Group's risk management structure in 2024.



(1) The Group Chief Executive Officer also performs the NWH Chief Executive Officer role.

(2) The Group Chief Risk Officer also performs the NWH Chief Risk Officer role, is a member of NatWest Group ExCo, NatWest Group ERC and an attendee at NatWest Group BRC.

(3) The NWH Risk function provides risk management services across NWH, including to the NatWest Group Chief Risk Officer and – where agreed – to NWM and RBSI Chief Risk Officers. These services are managed, as appropriate, through service level agreements.

(4) The NWH Risk function is independent of the NWH customer-facing business segments and support functions. Its structure is divided into three parts (Directors of Risk, Specialist Risk Directors and Chief Operating Officer) to facilitate effective management of the risks facing NWH. Risk committees in the customer businesses oversee risk exposures arising from management and business activities and focus on ensuring that these are adequately monitored and controlled. The Directors of Risk, (Retail Banking; Commercial & Institutional Banking (ring-fenced bank); Wealth Businesses; Digital X and Functions; Finance and Treasury and Non-financial Risk; the Head of Restructuring and the Chief Operating Officer report to the NWH Chief Risk Officer. The Director of Risk, Ulster Bank Ireland DAC reports to the Ulster Bank Ireland DAC Chief Executive. They also have a reporting line to the NWH Chief Risk Officer and to the Chair of the Ulster Bank Ireland DAC Board Risk Committee.

(5) The Chief Risk Officers for NWM and RBSI have dual reporting lines into the Group Chief Risk Officer and the respective Chief Executive Officers of their entities. There are additional reporting lines to the NWM and RBSI Board Risk Committee chairs and a right of access to the respective risk committees.

Risk management framework continued

Three lines of defence

NatWest Group uses the industry-standard three lines of defence model to articulate accountabilities and responsibilities for managing risk. This supports the embedding of effective risk management throughout the organisation. All roles below the CEO sit within one of the three lines. The CEO ensures the efficient use of resources and the effective management of risks as stipulated in the risk management framework and is therefore considered to be outside the three lines of defence principles.

First line of defence

The first line of defence incorporates most roles in NatWest Group, including those in the customer-facing businesses, Technology and Services as well as support functions such as People and Transformation, Legal and Finance.

The first line of defence is empowered to take risks within the constraints of the risk management framework, policies, risk appetite statements and measures set by the Board.

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

Second line of defence

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

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

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

Third line of defence

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

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

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

Risk appetite

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

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

Risk appetite framework

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

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

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

Establishing risk appetite

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

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

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

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

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

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

NatWest Group's key risk policies define at a high level the qualitative expectations, guidance and standards that stipulate the nature and extent of permissible risk taking across all principal risks. They form part of the qualitative expression of risk appetite and are consistently applied across NatWest Group and its subsidiaries. Key risk policies are reviewed and approved by the Board Risk Committee at least annually.

Identification and measurement

Identification and measurement within the risk management process comprises:

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

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

Mitigation

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

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

Testing and monitoring

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

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

Risk management framework continued

Stress testing

Stress testing – capital management

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

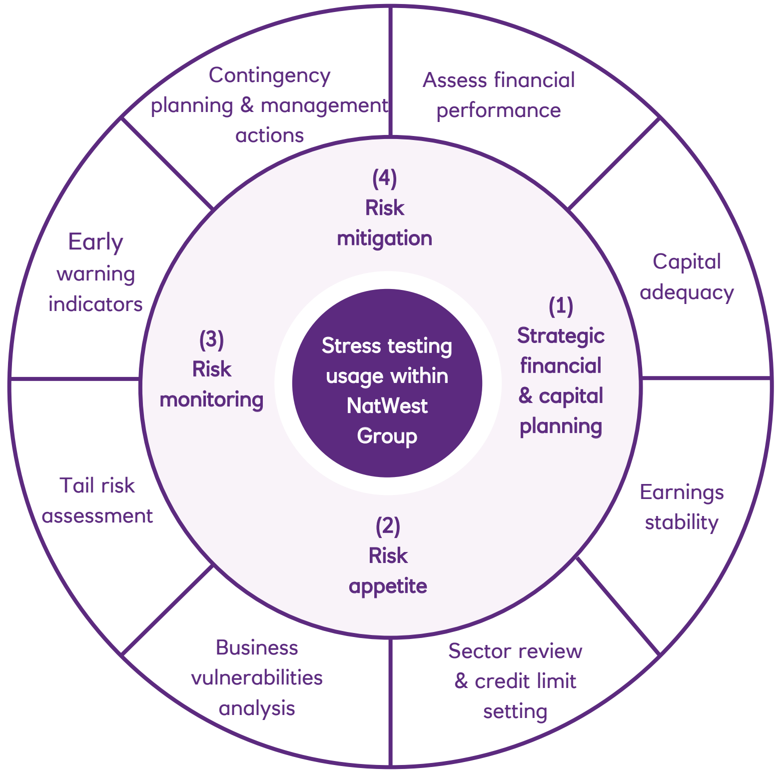
Stress testing includes:

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

The process for stress testing consists of four broad stages:

Define scenarios	– Identify macro and NatWest Group-specific vulnerabilities and risks. – Define and calibrate scenarios to examine risks and vulnerabilities. – Formal governance process to agree scenarios.
Assess impact	– Translate scenarios into risk drivers. – Assess impact to current and projected profit and loss and balance sheet across NatWest Group.
Calculate results and assess implications	– Aggregate impacts into overall results. – Results form part of the risk management process. – Scenario results are used to inform business and capital plans.
Develop and agree management actions	– Stress scenario results are analysed by subject matter experts. Appropriate management actions are then developed. – Scenario results and management actions are reviewed by the Asset & Liability Management Committee and Board Risk Committee and recommended to the Board for approval.

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



Risk management framework continued

Specific areas that involve capital management include:

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

Reverse stress testing is also carried out in order to identify and assess scenarios that would cause NatWest Group's business model to become unviable. Reverse stress testing allows potential vulnerabilities in the business model to be examined more fully.

Capital sufficiency – going concern forward-looking view

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

A range of future states are tested. In particular, capital requirements are assessed:

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

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

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

Internal assessment of capital adequacy

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

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

Capital allocation

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

Governance

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

Stress testing – liquidity

Liquidity risk monitoring and contingency planning

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

Internal assessment of liquidity

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

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

Risk management framework continued

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

Stress testing – recovery and resolution planning

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

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

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

The plan is intended to enable NatWest Group to maintain critical services and products it provides to its customers, maintain its core business lines and operate while restoring NatWest Group's financial health.

It is assessed for appropriateness on an ongoing basis and reviewed and approved by the Board prior to submission to the PRA on a biennial basis. Individual recovery plans are also prepared for NatWest Holdings Limited, NatWest Markets Plc, RBS International Limited, RBSH N.V. and NWB Europe. These plans detail the recovery options, recovery indicators and escalation routes for each entity.

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

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

Resolution would be implemented if NatWest Group was assessed by the UK authorities to have failed and the appropriate regulator put it into resolution. The process of resolution is owned and implemented by the Bank of England (as the UK Resolution Authority). NatWest Group ensures ongoing maintenance and enhancements of its resolution capabilities, in line with regulatory requirements. These requirements include the development of contingency plans to wind-down parts of the trading book.

Stress testing – market risk

Non-traded market risk

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

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

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

Non-traded market risk stress results are combined with those for other risks into the capital plan presented to the Board. The cross-risk capital planning process is conducted once a year, with a planning horizon of five years.

The scenario narratives cover both regulatory scenarios and macroeconomic scenarios identified by NatWest Group.

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

Traded market risk

NatWest Group carries out regular market risk stress testing to identify vulnerabilities and potential losses in excess of, or not captured in, value-at-risk. The calculated stresses measure the impact of changes in risk factors on the fair values of the trading portfolios.

NatWest Group conducts historical, macroeconomic and vulnerability-based stress testing. Historical stress testing is a measure that is used for internal management. Using the historical simulation framework employed for value-at-risk, the current portfolio is stressed using historical data since 1 January 2005. This methodology simulates the impact of the 99.9 percentile loss that would be incurred by historical risk factor movements over the period, assuming variable holding periods specific to the risk factors and the businesses.

Historical stress tests form part of the market risk limit framework and their results are reported regularly to senior management.

Risk management framework continued

Macroeconomic stress tests are carried out periodically as part of the bank-wide, cross-risk capital planning process. The scenario narratives are translated into risk factor shocks using historical events and insights by economists, risk managers and the first line of defence.

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

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

Internal scenarios – climate

In 2024, NatWest Group deployed an enhanced in-house corporate transition risk model, as part of an internal scenario analysis exercise, to assess climate transition related credit risks to corporate counterparties.

This involved running the following two climate scenarios:

- A disruptive transition scenario, where the onset of climate policy from the Network for Greening the Financial System (NGFS) delayed transition scenario is accelerated from 2031 to 2025, which could result in an accompanying macro-economic shock.
- The orderly transition scenario, which explores a rapid increase in carbon prices, based on the NGFS net zero 2050 scenario, but no accompanying macro-economic shock.

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

The corporate transition risk model and internal exercise builds on the learnings from the climate biennial exploratory scenario and NatWest Group's first-generation deployment in 2023. It also supports the processes for integration of climate into ICAAP and credit risk business use-cases. The model is capable of accounting for sector specific exposure to climate-related transition risks and counterparty specific response to a limited set of demand shocks and rising carbon prices, by mitigating emissions and passing costs through to customers.

Regulatory stress testing

In October 2023, the Bank of England undertook round one of its system-wide exploratory scenario (SWES) to enhance understanding of the behaviours of banks and non-bank financial institutions under a scenario informed by the liability driven investment and 'dash for cash' crises.

NatWest Group submitted its response to round one during H1 2024. The Bank of England subsequently published the anonymised results in the June 2024 Financial Stability Report providing a narrative account of the market-wide response.

Round two commenced in June 2024. Participants were asked to reconsider their assumptions in light of round one results, and submit revised actions if applicable. The overall results of the SWES exercise were published in November 2024.

Further details can be found at:

- www.bankofengland.co.uk/financial-stability-report/2024/june-2024
- www.bankofengland.co.uk/stress-testing/2024/stress-testing-uk-banking-system-scenarios-2024-desk-based
- www.bankofengland.co.uk/financial-stability/boe-system-wide-exploratory-scenario-exercise

Credit risk

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Definition (audited)

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

Sources of risk (audited)

The principal sources of credit risk for NatWest Group are lending, off-balance sheet products, derivatives and securities financing, and debt securities. NatWest Group is also exposed to settlement risk through foreign exchange, trade finance and payments activities.

Key developments in 2024

- Personal portfolio growth in 2024 was a result of the Metro Bank mortgage portfolio acquisition and continuing strong credit card growth which was driven by prime quality whole of market lending and balance transfer segments. There was a modest upward trend in arrears balances, in line with expectations following periods of balance growth and normalisation since COVID-19. Arrears inflow rates remained stable through the year in the Personal portfolio.
- Non-Personal lending increased during the year, driven by corporate and non-bank financial institutions sectors, aligned to customer strategy. Sector appetite continues to be reviewed regularly, with particular focus on sector clusters and sub-sectors that are deemed to represent a heightened risk, including due to cost of living, supply chain and inflationary pressures.
- Overall expected credit loss (ECL) decreased during 2024. Stage 3 charges being mainly offset by debt sale activity on Personal Banking unsecured assets and write-off. Reductions in Stage 1 and Stage 2 ECL across NatWest Group were driven by economic uncertainty post model adjustments, stable underlying portfolio performance and modelling updates, most notably the redevelopment of new stress probability of default (PD) models for Personal unsecured.

Governance (audited)

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

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

Credit risk continued

Risk appetite

Credit risk appetite is approved by the Board and is set and monitored through risk appetite frameworks tailored to NatWest Group's Personal and Non-Personal segments. NatWest Group's qualitative appetite is set out in the credit risk appetite statement. Risk appetite statements and associated measures are reviewed and approved at least annually by the Board on the Board Risk Committee's recommendation to ensure they remain appropriate and aligned to strategy.

Performance against risk appetite is reported regularly to the Executive Risk Committee, the Board Risk Committee, and the Board. Relevant credit risk matters are escalated through the Executive Risk Committee and Board Risk Committee and to the Board as applicable. For more information, refer to the Governance and remuneration section.

Personal

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

Non-Personal

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

The framework is used to manage concentrations of risk which may arise across four lenses – single name, sector, country and product and asset classes. The framework is supported by a suite of transactional acceptance standards that set out the risk parameters within which businesses should operate.

Identification and measurement

Credit stewardship (audited)

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

Asset quality (audited)

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

Counterparty credit risk

Counterparty credit risk arises from the obligations of customers under derivative and securities financing transactions. NatWest Group mitigates counterparty credit risk through collateralisation and netting agreements, which allow amounts owed by NatWest Group to a counterparty to be netted against amounts the counterparty owes NatWest Group.

Mitigation

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

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

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

Within the Private Banking and RBSI segments, properties securing loans greater than £2.5 million or €3 million are revalued every three years.

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

Commercial real estate valuations – NatWest Group has an actively managed panel of chartered surveying firms that cover the spectrum of geography and property sectors in which NatWest Group takes collateral. Suitable RICS registered valuers for particular assets are contracted through a service agreement to ensure consistency of quality and advice. In the UK, an independent third-party market indexation is applied to update external valuations for commercial property once they are more than a year old.

For loan obligations in excess of £2.5 million and where the charged property has a book value in excess of £0.5 million, a formal valuation review is typically commissioned at least every three years.

Assessment and monitoring

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

Personal

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

NatWest Group then sets its lending rules accordingly, developing different rules for different products.

Credit risk continued

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

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

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

Non-Personal

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

A credit assessment is carried out before credit facilities are made available to customers. The assessment process is dependent on the complexity of the transaction.

Credit approvals are subject to environmental, social and governance risk policies which restrict exposure to certain highly carbon intensive industries as well as those with potentially heightened reputational impacts. Customer specific climate risk commentary is now mandatory.

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

For other transactions, both business approval and credit approval are required.

The joint business and credit approvers act within a delegated approval authority under the Wholesale Credit Authorities policy. The level of delegated authority held by approvers is dependent on their experience and expertise with only a small number of senior executives holding the highest approval authority.

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

Credit quality, and loss given default (LGD) are reviewed annually. The review process assesses borrower performance, the adequacy of security, compliance with terms and conditions, and refinancing risk.

Problem debt management

Personal

Early problem identification

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

Personal customers experiencing financial difficulty are managed by the Collections team.

If the Collections team is unable to provide appropriate support after discussing suitable options with the customer, management of that customer moves to the Recoveries team. If at any point in the collections and recoveries process, the customer is identified as being potentially vulnerable, the customer will be supported to ensure they receive appropriate support for their circumstances.

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

Collections

When a customer exceeds an agreed limit or misses a regular monthly payment, the customer is contacted by NatWest Group and requested to remedy the position. If the situation is not resolved then, where appropriate, the Collections team will become involved and the customer will be supported by skilled debt management staff who endeavour to provide customers with bespoke solutions.

Solutions include short-term account restructuring, refinance loans and forbearance which can include interest suspension and 'breathing space'. All treatments available to customers experiencing financial difficulties are reviewed to ensure they remain appropriate for customers impacted by current economic conditions.

In the event that an affordable and sustainable agreement with a customer cannot be reached, the debt will transition to the Recoveries team.

For provisioning purposes, under IFRS 9, exposure to customers managed by the Collections team is categorised as Stage 2 and subject to a lifetime loss assessment, unless it is 90 days past due or has triggered any other unlikeliness to pay indicators, in which case it is categorised as Stage 3.

Recoveries

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

Non-Personal

Early problem identification

Each segment and sector have defined early warning indicators to identify customers experiencing financial difficulty, and to increase monitoring if needed.

Early warning indicators may be internal, such as a customer's bank account activity, or external, such as a publicly-listed customer's share price. If early warning indicators show a customer is experiencing potential or actual difficulty, or if relationship managers or credit officers identify other signs of financial difficulty, they may decide to classify the customer within the Wholesale Problem Debt Management framework.

Credit risk continued

There is an equivalent process for Business Banking customers, with problem debt cases reallocated to increased monitoring and support under a Portfolio Management Relationship team or the Financial Health and Support Team. Broader macro-economic trends including commodity prices, foreign exchange rates and consumer and government spend are also tracked, helping inform decisions on sector risk appetite.

Customer level early warning indicators are regularly reviewed to ensure alignment with prevailing economic conditions, ensuring both the volume and focus of alerts are aligned to the point-in-time risk within each sector.

The Wholesale Problem Debt Management framework

This framework focuses on Non-Personal customers (excluding business banking) to provide early identification of credit deterioration, support intelligent risk-taking, ensure fair and consistent customer outcomes and provide key insights into Non-Personal lending portfolios.

Expert judgement is applied by experienced credit risk officers to classify cases into categories that reflect progressively deteriorating credit risk to NatWest Group. There are two classifications in the framework that apply to non-defaulted customers who are in financial stress – Heightened Monitoring and Risk of Credit Loss. For the purposes of provisioning, all exposures categorised as Heightened Monitoring or Risk of Credit Loss are categorised as Stage 2 and subject to a lifetime loss assessment.

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

Heightened Monitoring customers are performing customers that have met certain characteristics, which have led to significant credit deterioration. Collectively, characteristics reflect circumstances that may affect the customer's ability to meet repayment obligations. Characteristics include trading issues, covenant breaches, material PD downgrades and past due facilities.

Heightened Monitoring customers require pre-emptive actions (outside the customer's normal trading patterns) to return or maintain their facilities within NatWest Group's current risk appetite.

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

Once classified as either Heightened Monitoring or Risk of Credit Loss, a number of mandatory actions are taken in accordance with policies.

Actions include a review of the customer's credit grade, facility and security documentation and the valuation of security. Depending on the severity of the financial difficulty and the size of the exposure, the customer relationship strategy is reassessed by credit officers, by specialist credit risk or relationship management units in the relevant business, or by Restructuring.

Agreed customer management strategies are regularly monitored by both the business and credit teams.

The largest Risk of Credit Loss exposures are regularly reviewed by a Problem Debt Case Review forum. The forum members are experienced credit, business and restructuring specialists.

The purpose of the forum is to review and challenge the strategies undertaken for customers that pose the largest risk of credit loss to NatWest Group.

Appropriate corrective action is taken when circumstances emerge that may affect the customer's ability to service its debt. Corrective actions may include granting a customer various types of concessions.

Any decision to approve a concession will be a function of specific appetite, the credit quality of the customer, the market environment and the loan structure and security.

All customers granted forbearance are classified Heightened Monitoring as a minimum.

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

The Wholesale Problem Debt Management framework does not apply to problem debt management for business banking customers. These customers are, where necessary, managed by specialist problem debt management teams, depending on the size of exposure or by the business banking recoveries team where a loan has been impaired.

Restructuring

Where customers have lending exposure above £1 million, and meet specific referral criteria, relationships are supported by the Restructuring team.

Restructuring works with corporate and commercial customers in financial difficulty to help them understand their options and how their restructuring or repayment strategies can be delivered.

Helping viable customers return to financial health and restoring a normal banking relationship is always the preferred outcome; however, where this is not possible, NatWest Group will work with customers to achieve a solvent outcome.

Throughout this period, the mainstream relationship manager will remain an integral part of the customer relationship. Insolvency is considered as a last resort and if deemed necessary, NatWest Group will work to recover its capital in a fair and efficient manner, while upholding the fair treatment of customers and NatWest Group's core values.

Customer Lending Support

With effect from 1 January 2025, Customer Lending Support, a new centre of expertise, was established to support Non-Personal customers in financial difficulty. Customer Lending Support brings together Restructuring, Business Banking, International Retail and Business Banking Northern Ireland teams who support Non-Personal customers in financial difficulty. Collections activity within Commercial Mid-Market will also transfer to Customer Lending Support.

Forbearance (audited)

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

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

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

Credit risk continued

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

Types of forbearance

Personal

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

Non-Personal

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

Monitoring of forbearance

Personal

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

Non-Personal

In the Non-Personal portfolio, customer PDs and facility LGDs are reassessed prior to finalising any forbearance arrangement. The ultimate outcome of a forbearance strategy is highly dependent on the co-operation of the borrower and a viable business or repayment outcome. Where forbearance is no longer appropriate, NatWest Group will consider other options such as demanding repayment of facilities, and in the event repayment does not take place, the enforcement of security, insolvency proceedings or both, although these are options of last resort.

Provisioning for forbearance (audited)

Personal

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

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

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

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

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

Non-Personal

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

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

In line with regulatory guidance, forbearance may lead to a customer being classified as non-performing. In the case of non-performing forborne loans, an individual loan impairment provision assessment generally takes place prior to forbearance being granted.

The amount of the loan impairment provision may change once the terms of the forbearance are known, resulting in an additional provision charge or a release of the provision in the period the forbearance is granted.

The transfer of Non-Personal loans from impaired to performing status follows assessment by relationship managers and credit. When no further losses are anticipated and the customer is expected to meet the loan's revised terms, any provision is written-off or released and the balance of the loan can be returned to performing status once the exit criteria, as set out by regulatory guidance, are met. Refer to pages 207 and 209 for further details on Non - Personal and Personal forbearance.

Credit grading models

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

Credit grading models are designed to provide:

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

Impairment, provisioning and write-offs (audited)

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

NatWest Group's IFRS 9 provisioning models, which use existing internal ratings based (IRB) models as a starting point, incorporate term structures and economic forecasts.

Regulatory conservatism within the IRB models has been removed as appropriate to comply with the IFRS 9 requirement for unbiased ECL estimates.

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

Model build:

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

Credit risk continued

Model application:

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

For accounting policy information, refer to Accounting policy 2.3.

IFRS 9 ECL model design principles (audited)

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

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

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

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

For assets originated before IFRS 9 was introduced, comparable lifetime origination PDs did not exist.

These have been retrospectively created using the relevant model inputs applicable at initial recognition.

PD estimates

Personal models

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

Non-Personal models

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

One-year PDs are extended to lifetime PDs using a conditional transition matrix approach and economic forecasts.

LGD estimates

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

Personal

Economic forecasts are incorporated for the secured portfolios, where changes in property prices can be readily accommodated. Analysis has shown minimal impact of economic conditions on LGDs for the other Personal portfolios.

Non-Personal

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

EAD estimates

Personal

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

- Revolving products use the existing IRB models as a basis, with appropriate adjustments incorporating a term structure based on time to default.
- Amortising products use an amortising schedule, where a formula is used to calculate the expected balance based on remaining terms and interest rates.

Analysis has indicated that there is minimal impact on EAD arising from changes in the economy for all Personal portfolios except mortgages. Therefore, forward-looking information is only incorporated in the mortgage EAD model (through forecast changes in interest rates).

Non-Personal

For Non-Personal, EAD values are projected using product-specific credit conversion factors (CCFs), closely following the product segmentation and approach of the respective IRB model.

The CCFs are estimated over multi-year time horizons and contain no regulatory conservatism or downturn assumptions.

No explicit economic forecasts are incorporated, on the basis of analysis showing the movement in CCFs is mainly attributable to changes in exposure management practices rather than economic conditions.

Governance and post model adjustments (audited)

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

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

Credit risk continued

ECL post model adjustments (audited)

The table below shows ECL post model adjustments.

2024	Retail Banking Mortgages £m	Retail Banking Other £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
Deferred model calibrations	-	-	1	18	-	19
Economic uncertainty	90	22	8	179	-	299
Other adjustments	-	-	-	18	-	18
Total	90	22	9	215	-	336
Of which:						
- Stage 1	*58*	*9*	*5*	*94*	-	*166*
- Stage 2	*26*	*13*	*4*	*119*	-	*162*
- Stage 3	*6*	-	-	*2*	-	*8*
2023						
Deferred model calibrations	-	-	1	23	-	24
Economic uncertainty	118	39	13	256	3	429
Other adjustments	1	-	-	8	23	32
Total	119	39	14	287	26	485
Of which:						
- Stage 1	*75*	*14*	*6*	*115*	*10*	*220*
- Stage 2	*31*	*25*	*8*	*167*	*9*	*240*
- Stage 3	*13*	-	-	*5*	*7*	*25*

Post model adjustments decreased significantly since 31 December 2023, reflecting reduced economic uncertainty from inflation, higher-for-longer interest rates and liquidity.

- **Retail Banking** – The post model adjustments for economic uncertainty decreased to £112 million at 31 December 2024 (2023 – £157 million). This reduction primarily reflected a revision to the cost of living post model adjustment to £105 million (2023 – £144 million), reflecting enhancements to the assessment approach, supported by back-testing of default outcomes for higher risk segments. The cost of living post model adjustment captures the risk on segments in the Retail Banking portfolio that are more susceptible to the effects of cost of living rises. It focuses on key affordability lenses, including lower-income customers in fuel poverty, over-indebted borrowers and customers who remain vulnerable to higher mortgage rates.
- **Commercial & Institutional** – The post model adjustment for economic uncertainty decreased to £179 million (2023 – £256 million). The inflation, supply chain and liquidity post model adjustment of £150 million (2023 – £206 million) was maintained for lending prior to 1 January 2024 being a sector level downgrade applied to the sectors that are considered most at risk from the current headwinds. A further £29 million (2023 – £50 million) remains for customers that utilised government support schemes, this adjustment is reducing as customers default or repay.
- The £18 million (2023 – £23 million) judgemental overlay for deferred model calibrations relates to refinance risk, with the existing mechanistic modelling approach not fully capturing the risk on deteriorated exposures.
- The £18 million (2023 – £8 million) other post model adjustment was to mitigate the effect of operational timing delays in the identification and flagging of a SICR, with the increase due to a small number of large corporate exposures moving quickly from Stage 1 into default.

Credit risk continued

SICR (audited)

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

The framework comprises the following elements:

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

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

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

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

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

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

Asset lifetimes (audited)

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

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

In the case of credit cards, the most significant judgement is to reflect the operational practice of card reissuance and the associated credit assessment as enabling a formal re-origination trigger. As a consequence, a capped lifetime approach of up to 36 months is used on credit card balances. If the approach was uncapped, the ECL impact is estimated at approximately £71 million (2023 – £110 million). However, credit card balances originated under the 0% balance transfer product and representing approximately 47% (2023 – 37%) of performing card balances, have their ECL calculated on a behavioural lifetime approach as opposed to being capped at a maximum of three years.

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

Economic loss drivers (audited)

Introduction

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

Credit risk continued

Economic loss drivers (audited) continued

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

Portfolio	Economic loss drivers
Personal mortgages	Unemployment rate, sterling swap rate, house price index, real wage
Personal unsecured	Unemployment rate, sterling swap rate, real wage
Corporates	Stock price index, gross domestic product (GDP)
Commercial real estate	Stock price index, commercial property price index, GDP

Economic scenarios

At 31 December 2024, the range of anticipated future economic conditions was defined by a set of four internally developed scenarios and their respective probabilities. In addition to the base case, they comprised upside, downside and extreme downside scenarios. The scenarios primarily reflected the current risks faced by the economy. The scenarios primarily reflected the current risks faced by the economy. This approach was similar to that used at 31 December 2023.

For 31 December 2024, the four scenarios were deemed appropriate in capturing the uncertainty in economic forecasts and the non-linearity in outcomes under different scenarios. These four scenarios were developed to provide sufficient coverage across potential rises in unemployment, inflation, asset price declines and the degree of permanent damage to the economy, around which there remains pronounced levels of uncertainty.

Since 31 December 2023, the economic outlook has evolved. The economy came out of post-COVID-19 stagnation with an upswing in the first half of 2024 as household income recovered. The growth lost momentum in the second half of 2024 and the outlook remains that of moderate growth. Inflation declined over the year, although the progress is slower than expected and inflation is likely to take longer to reach the target of 2%. As a result, rates are expected to remain higher-for-longer than previously expected. The unemployment rate increased modestly but it is underpinned by a still resilient labour market. There was emerging risk to the labour market due to higher tax burdens, but the impact is likely to be moderate. House prices were previously assumed to decline in 2024, but they performed better than expected. However, the higher interest rate environment poses a risk to the recovery.

Headline macro variables: what are the risks and where are they captured?

	Mini narratives – potential developments, vulnerabilities and risks	Upside	Base case	Downside	Extreme downside
Growth	**Outperformance sustained** – economy remains close to H1 2024 pace on strong consumer				
	Steady growth – staying close to trend pace from H2 2024 and beyond				
	Stalling – 2024 strength proves fleeting, lagged effect of higher rates and cautious consumer stalls the rebound				
	Extreme stress – extreme fall in GDP, with policy support to facilitate sharp recovery				
Inflation	**Close to deflation** – inflationary pressures diminish amidst pronounced weakness in demand				
	Battle won – continued downward drift in services inflation, ensuring 2% target is met on sustained basis				
	Sticky – strong growth and/or wage policies and/or interest rate cuts keep services inflation well above target				
	Structural factors – sustained bouts of energy, food and goods price inflation on geopolitics/deglobalisation				
Labour market	**Tighter, still** – job growth rebounds strongly, pushing unemployment back down to sub-3.5%				
	Cooling continues – gradual loosening prompts a gentle rise in unemployment (but remains low), job growth recovers				
	Job shedding – prolonged weakness in economy prompts redundancies, reduced hours, building slack				
	Depression – unemployment hits levels close to previous peaks amid severe stress				
Rates short-term	**Limited cuts** – higher growth and inflation keeps the MPC cautious				
	Steady – approximately one cut per quarter				
	Mid-cycle quickening – sharp declines through 2025 to support recovery				
	Sharp drop – drastic easing in policy to support a sharp deterioration in the economy				
Rates long-term	**Above consensus** – 4%				
	Middle – 3-3.5%				
	Close to 2010s – 1-2%/2.5%				

Credit risk continued

Economic loss drivers (audited)

Main macroeconomic variables

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

	2024					2023				
	Upside	Base case	Downside	Extreme downside	Weighted average	Upside	Base case	Downside	Extreme downside	Weighted average
Five-year summary	%	%	%	%	%	%	%	%	%	%
GDP	**2.0**	**1.3**	**0.5**	**(0.2)**	**1.1**	1.8	1.0	0.5	(0.3)	0.9
Unemployment rate	**3.6**	**4.3**	**5.0**	**6.7**	**4.6**	3.5	4.6	5.2	6.8	4.8
House price index	**5.8**	**3.5**	**0.8**	**(4.3)**	**2.7**	3.9	0.3	(0.4)	(5.7)	0.3
Commercial real estate price	**5.4**	**1.2**	**(1.0)**	**(5.7)**	**1.1**	3.1	(0.2)	(2.0)	(6.8)	(0.6)
Consumer price index	**2.4**	**2.2**	**3.5**	**1.6**	**2.4**	1.7	2.6	5.2	1.8	2.8
Bank of England base rate	**4.4**	**4.0**	**3.0**	**1.6**	**3.6**	3.8	3.7	5.6	2.9	4.0
Stock price index	**6.3**	**5.0**	**3.4**	**1.1**	**4.5**	4.8	3.3	1.2	(0.4)	2.8
World GDP	**3.8**	**3.2**	**2.5**	**1.6**	**3.0**	3.7	3.2	2.7	1.8	3.0
Probability weight	**23.2**	**45.0**	**19.1**	**12.7**		21.2	45.0	20.4	13.4	

(1) The five-year summary runs from 2024-28 for 31 December 2024 and from 2023-27 for 31 December 2023.
(2) The table shows compound annual growth rate (CAGR) for GDP, average levels for the unemployment rate and Bank of England base rate and Q4 to Q4 CAGR for other parameters.

Climate transition

Since 2023, NatWest Group has included explicit assumptions about changes in transition policy, expressed as an additional implicit sectoral carbon price, in the base-case macroeconomic scenario. This approach has been used for financial planning and IFRS 9 reporting ever since. This analysis resulted in climate transition policy contributing £8 million to the total ECL of £3.4 billion at the end of 2024.

In 2024, NatWest Group refined its approach. Instead of applying the economy-wide carbon price from an external scenario used in 2023, NatWest Group calculated the expected implicit carbon prices associated with specific climate transition policies. NatWest Group individually assessed 46 active and potential transition policies that had a significant impact on the cost of emissions and converted them into equivalent sectoral carbon prices. This was calculated as the cost per tonne of the emissions (CO_2e) abated as a result of each policy.

NatWest Group estimated that the weighted average carbon price associated with the policies assessed will increase from £73 per tonne in 2024 to £123 per tonne in 2029. Sectoral carbon prices feed into the climate risk macro model. The model has been developed and improved over the past few years to enable NatWest Group to estimate the impact of carbon prices on a macroeconomic scenario.

UK government policies which are estimated to have the largest impact on sectoral carbon prices are:

- Emissions Trading Scheme
- Climate Change Levy
- Renewables Obligation
- VAT on domestic energy

This analysis presents a very narrow view of climate transition impact from 46 analysed policies. It only covers base case macroeconomic scenario and does not include physical impacts.

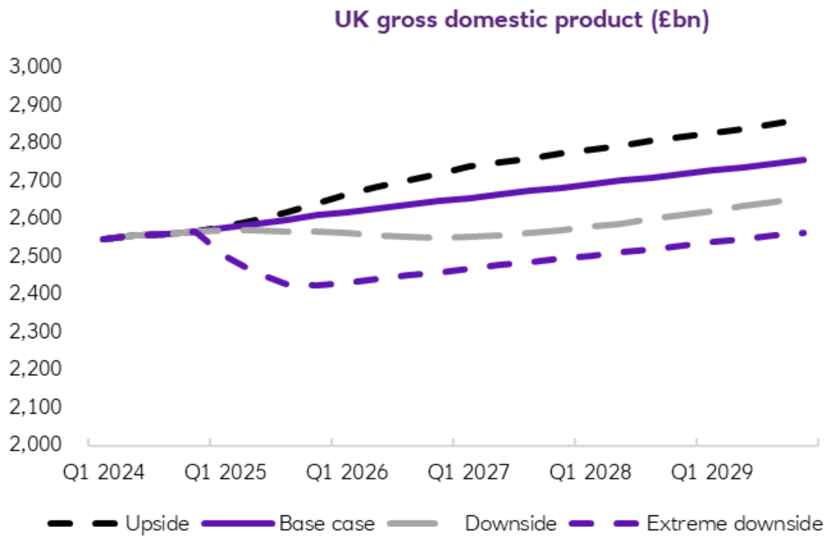
NatWest Group and its customers have a dependency on timely and appropriate government policies to provide the necessary impetus for technology development and customer behaviour changes, to enable the UK's successful transition to net zero. Policy delays and the risks outlined in the UK CCC 2022, 2023 and 2024 Progress Reports, if not adequately addressed in a timely manner, put at risk the UK's net zero transition and, in turn, that of NatWest Group and its customers.

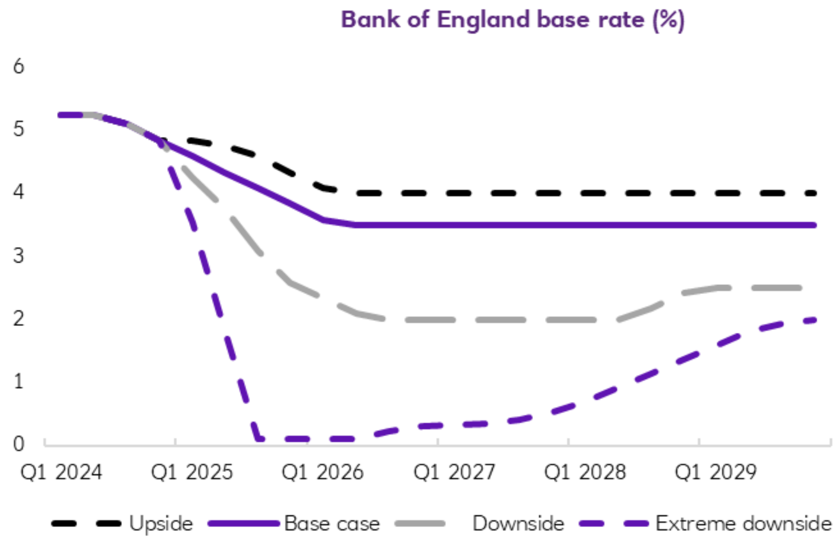
Probability weightings of scenarios

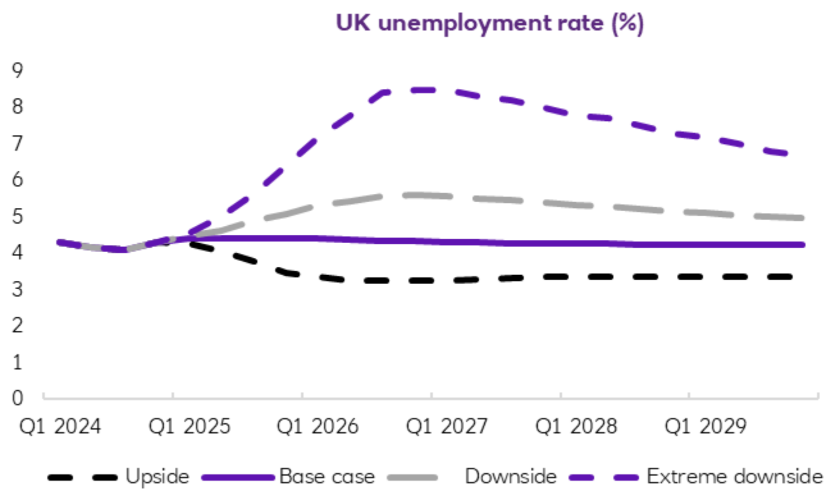
NatWest Group's quantitative approach to IFRS 9 multiple economic scenarios (MES) involves selecting a suitable set of discrete scenarios to characterise the distribution of risks in the economic outlook and assigning appropriate probability weights. This quantitative approach is used for 31 December 2024. The approach involves comparing GDP paths for NatWest Group's scenarios against a set of 1,000 model runs, following which a percentile in the distribution is established that most closely corresponded to the scenario. The probability weight for base case is set first based on judgement, while probability weights for the alternate scenarios are assigned based on these percentiles scores.The assigned probability weights were judged to be aligned with the subjective assessment of balance of the risks in the economy. The weights were marginally less downside skewed compared to those used at 31 December 2023. The downside risks associated with a materially high inflation have reduced, with inflation lower at the end of 2024 compared to a year ago. However, the economic outlook is still subject to considerable uncertainty especially with respect to persistence of inflation, restrictive trade policies and various geopolitical flashpoints. Given that backdrop, NatWest Group judges it appropriate that downside-biased scenarios have higher combined probability weights than the upside-biased scenario. It presents good coverage to the range of outcomes assumed in the scenarios, including the potential for a robust recovery on the upside and exceptionally challenging outcomes on the downside. A 23.2% weighting was applied to the upside scenario, a 45.0% weighting applied to the base case scenario, a 19.1% weighting applied to the downside scenario and a 12.7% weighting applied to the extreme downside scenario.

Credit risk continued

Economic loss drivers







Credit risk continued

Economic loss drivers (audited)

Annual figures

	GDP - annual growth				
	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2024	0.9	0.9	0.9	0.9	0.9
2025	2.0	1.4	0.4	(4.1)	0.6
2026	3.2	1.5	(0.5)	(0.3)	1.3
2027	2.3	1.4	0.2	1.4	1.4
2028	1.6	1.4	1.3	1.4	1.4
2029	1.6	1.4	1.7	1.4	1.5

	Consumer price index - four quarter change				
	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2024	2.4	2.4	2.4	2.4	2.4
2025	2.9	2.3	5.8	0.6	2.9
2026	2.4	2.1	4.2	1.1	2.4
2027	2.1	2.0	2.6	1.8	2.1
2028	2.0	2.0	2.4	2.0	2.1
2029	2.0	2.0	2.5	2.0	2.1

	Unemployment rate - annual average				
	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2024	4.2	4.2	4.2	4.2	4.2
2025	3.9	4.4	4.8	5.4	4.5
2026	3.3	4.4	5.5	8.0	4.8
2027	3.3	4.3	5.5	8.3	4.8
2028	3.4	4.3	5.3	7.6	4.7
2029	3.4	4.2	5.0	6.9	4.5

	Bank of England base rate - annual average				
	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2024	5.11	5.11	5.11	5.11	5.11
2025	4.63	4.21	3.42	1.40	3.80
2026	4.02	3.52	2.10	0.18	2.94
2027	4.00	3.50	2.00	0.40	2.94
2028	4.00	3.50	2.15	1.03	3.04
2029	4.00	3.50	2.50	1.83	3.21

	House price index - four quarter change				
	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2024	3.5	3.5	3.5	3.5	3.5
2025	7.8	3.5	(1.2)	(7.6)	2.2
2026	7.2	3.4	(2.8)	(14.7)	1.1
2027	5.1	3.4	0.1	(8.0)	2.2
2028	5.4	3.4	4.4	6.9	4.4
2029	5.6	3.4	4.2	6.3	4.4

	Stock price index - four quarter change				
	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2024	11.6	11.6	11.6	11.6	11.6
2025	8.1	3.4	(10.5)	(35.0)	(3.0)
2026	5.1	3.4	5.8	15.1	5.3
2027	3.5	3.4	5.8	13.1	4.8
2028	3.5	3.4	5.8	11.6	4.7
2029	3.0	3.4	5.8	10.4	4.5

	Commercial real estate price - four quarter change				
	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2024	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)
2025	14.1	2.4	(6.8)	(23.7)	0.1
2026	4.4	1.5	(2.5)	(12.7)	0.2
2027	5.5	1.4	2.8	6.7	3.3
2028	4.2	1.5	2.6	5.7	2.8
2029	2.7	1.4	2.5	5.4	2.3

Credit risk continued

Economic loss drivers (audited)

Worst points

	2024					2023				
	Downside		Extreme downside		Weighted average	Downside		Extreme downside		Weighted average
	%	Quarter	%	Quarter	%	%	Quarter	%	Quarter	%
GDP	-	Q1 2024	(4.1)	Q4 2025	-	(1.2)	Q3 2024	(4.5)	Q4 2024	0.3
Unemployment rate - peak	5.6	Q4 2026	8.5	Q1 2027	4.9	5.8	Q1 2025	8.5	Q2 2025	5.2
House price index	(1.9)	Q2 2027	(25.6)	Q3 2027	-	(12.5)	Q4 2025	(31.7)	Q2 2026	(6.5)
Commercial real estate price	(10.5)	Q2 2026	(35.0)	Q3 2026	(1.8)	(16.6)	Q1 2025	(39.9)	Q3 2025	(10.2)
Consumer price index - highest four quarter change	6.1	Q1 2026	3.5	Q1 2024	3.5	10.3	Q1 2023	10.3	Q1 2023	10.3
Bank of England base rate - extreme level	2.0	Q1 2024	0.1	Q1 2024	2.9	6.5	Q4 2024	5.3	Q4 2023	5.3
Stock price index	(0.2)	Q4 2025	(27.4)	Q4 2025	-	(14.3)	Q4 2024	(39.3)	Q4 2024	(2.4)

(1) The figures show falls relative to the starting period for GDP, house price index, commercial real estate price and stock price index. For unemployment rate, it shows highest value through the scenario horizon. For consumer price index, it shows highest annual percentage change. For Bank of England base rate, it shows highest or lowest value through the horizon. The calculations are performed over five years, with a starting point of Q4 2023 for 31 December 2024 scenarios and Q4 2022 for 31 December 2023 scenarios.

Credit risk continued

Measurement uncertainty and ECL sensitivity analysis (audited)

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

The impact arising from the base case, upside, downside and extreme downside scenarios was simulated.

In the simulations, NatWest Group has assumed that the economic macro variables associated with these scenarios replace the existing base case economic assumptions, giving them a 100% probability weighting and therefore serving as a single economic scenario.

These scenarios were applied to all modelled portfolios in the analysis below, with the simulation impacting both PDs and LGDs. Post model adjustments included in the ECL estimates that were modelled were sensitised in line with the modelled ECL movements, but those that were judgemental in nature, primarily those for deferred model calibrations and economic uncertainty, were not (refer to the Governance and post model adjustments section) on the basis these would be re-evaluated by management through ECL governance for any new economic scenario outlook and not be subject to an automated calculation. As expected, the scenarios create differing impacts on ECL by portfolio and the impacts are deemed reasonable.

In this simulation, it is assumed that existing modelled relationships between key economic variables and loss drivers hold, but in practice other factors would also have an impact, for example, potential customer behaviour changes and policy changes by lenders that might impact on the wider availability of credit.

The focus of the simulations is on ECL provisioning requirements on performing exposures in Stage 1 and Stage 2. The simulations are run on a stand-alone basis and are independent of each other; the potential ECL impacts reflect the simulated impact at 31 December 2024.

Scenario impacts on SICR should be considered when evaluating the ECL movements of Stage 1 and Stage 2. In all scenarios the total exposure was the same but exposure by stage varied in each scenario.

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

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

Measurement uncertainty and ECL sensitivity analysis (audited)

2024	Actual	Base scenario	Moderate upside scenario	Moderate downside scenario	Extreme downside scenario
Stage 1 modelled loans (£m)					
Retail Banking - mortgages	169,090	170,887	173,703	164,370	154,604
Retail Banking - unsecured	10,269	10,485	10,876	9,847	8,925
Non-personal - property	28,598	28,684	28,827	28,452	25,402
Non-personal - non-property	126,487	127,179	127,557	125,790	107,287
	334,444	337,235	340,963	328,459	296,218
Stage 1 modelled ECL (£m)					
Retail Banking - mortgages	67	69	71	61	50
Retail Banking - unsecured	204	212	210	198	185
Non-personal - property	82	66	59	85	164
Non-personal - non-property	218	197	191	219	331
	571	544	531	563	730
Stage 1 coverage					
Retail Banking - mortgages	0.04%	0.04%	0.04%	0.04%	0.03%
Retail Banking - unsecured	1.99%	2.02%	1.93%	2.01%	2.07%
Non-personal - property	0.29%	0.23%	0.20%	0.30%	0.65%
Non-personal - non-property	0.17%	0.15%	0.15%	0.17%	0.31%
	0.17%	0.16%	0.16%	0.17%	0.25%
Stage 2 modelled loans (£m)					
Retail Banking - mortgages	20,980	19,183	16,367	25,700	35,466
Retail Banking - unsecured	3,513	3,297	2,906	3,935	4,857
Non-personal - property	3,019	2,933	2,790	3,165	6,215
Non-personal - non-property	13,143	12,451	12,073	13,840	32,343
	40,655	37,864	34,136	46,640	78,881
Stage 2 modelled ECL (£m)					
Retail Banking - mortgages	60	53	44	72	118
Retail Banking - unsecured	370	348	300	407	532
Non-personal - property	62	53	47	66	183
Non-personal - non-property	286	251	228	307	628
	778	705	619	852	1,461
Stage 2 coverage					
Retail Banking - mortgages	0.29%	0.28%	0.27%	0.28%	0.33%
Retail Banking - unsecured	10.53%	10.56%	10.32%	10.34%	10.95%
Non-personal - property	2.05%	1.81%	1.68%	2.09%	2.94%
Non-personal - non-property	2.18%	2.02%	1.89%	2.22%	1.94%
	1.91%	1.86%	1.81%	1.83%	1.85%

Credit risk continued

Measurement uncertainty and ECL sensitivity analysis (audited)

2024	Actual	Base scenario	Moderate upside scenario	Moderate downside scenario	Extreme downside scenario
Stage 1 and Stage 2 modelled loans (£m)					
Retail Banking - mortgages	190,070	190,070	190,070	190,070	190,070
Retail Banking - unsecured	13,782	13,782	13,782	13,782	13,782
Non-personal - property	31,617	31,617	31,617	31,617	31,617
Non-personal - non-property	139,630	139,630	139,630	139,630	139,630
	375,099	375,099	375,099	375,099	375,099
Stage 1 and Stage 2 modelled ECL (£m)					
Retail Banking - mortgages	127	122	115	133	168
Retail Banking - unsecured	574	560	510	605	717
Non-personal - property	144	119	106	151	347
Non-personal - non-property	504	448	419	526	959
	1,349	1,249	1,150	1,415	2,191
Stage 1 and Stage 2 coverage					
Retail Banking - mortgages	0.07%	0.06%	0.06%	0.07%	0.09%
Retail Banking - unsecured	4.16%	4.06%	3.70%	4.39%	5.20%
Non-personal - property	0.46%	0.38%	0.34%	0.48%	1.10%
Non-personal - non-property	0.36%	0.32%	0.30%	0.38%	0.69%
	0.36%	0.33%	0.31%	0.38%	0.58%
Reconciliation to Stage 1 and Stage 2 ECL (£m)					
ECL on modelled exposures	1,349	1,249	1,150	1,415	2,191
ECL on non-modelled exposures	36	36	36	36	36
Total Stage 1 and Stage 2 ECL (£m)	1,385	1,285	1,186	1,451	2,227
Variance to actual total Stage 1 and Stage 2 ECL (£m)		(100)	(199)	66	842
Reconciliation to Stage 1 and Stage 2 flow exposures (£m)					
Modelled loans	375,099	375,099	375,099	375,099	375,099
Non-modelled loans	21,074	21,074	21,074	21,074	21,074
Other asset classes	161,548	161,548	161,548	161,548	161,548

(1) Variations in future undrawn exposure values across the scenarios are modelled, however the exposure position reported is that used to calculate modelled ECL as at 31 December 2024 and therefore does not include variation in future undrawn exposure values.
(2) Reflects ECL for all modelled exposure in scope for IFRS 9. The analysis excludes non-modelled portfolios and exposure relating to bonds and cash.
(3) All simulations are run on a stand-alone basis and are independent of each other, with the potential ECL impact reflecting the simulated impact as at 31 December 2024 The simulations change the composition of Stage 1 and Stage 2 exposure but total exposure was unchanged under each scenario as the loan population was static.
(4) Refer to the Economic loss drivers section for details of economic scenarios.
(5) Refer to the NatWest Group 2023 Annual Report and Accounts for 2023 comparatives.

Measurement uncertainty and ECL adequacy (audited)

- If the economics were as negative as observed in the extreme downside (i.e. 100% probability weighting), total Stage 1 and Stage 2 ECL was simulated to increase by £0.8 billion (approximately 61%). In this scenario, Stage 2 exposure increased significantly and was the key driver of the simulated ECL rise. The movement in Stage 2 balances in the other simulations was less significant.
- In the Non-Personal portfolio, there was a significant increase in ECL under the extreme downside scenario. The Non-Personal property ECL increase was mainly due to commercial real estate prices which showed negative growth until 2026 and significant deterioration in the stock index. The non-property increase was mainly due to GDP contraction and significant deterioration in the stock index.
- Given the continued economic uncertainty, NatWest Group utilised a framework of quantitative and qualitative measures to support the levels of ECL coverage. This included economic data, credit performance insights and problem debt trends. This was particularly important for consideration of post model adjustments.
- As the effects of these economic risks evolve into 2025, there is a risk of further credit deterioration. However, the income statement effect of this should be mitigated by the forward-looking provisions retained on the balance sheet at 31 December 2024.
- There are a number of key factors that could drive further downside to impairments, through deteriorating economic and credit metrics and increased stage migration as credit risk increases for more customers. Such factors which could impact the IFRS 9 models, include an adverse deterioration in unemployment, GDP and stock price index in which NatWest Group operates.

Credit risk continued

Movement in ECL provision[1]

The table below shows the main ECL provision movements during the year.

	ECL provision £m
At 1 January 2024	**3,645**
Transfers to disposal groups and reclassifications	**(18)**
Changes in economic forecasts	**(58)**
Changes in risk metrics and exposure: Stage 1 and Stage 2	**(117)**
Changes in risk metrics and exposure: Stage 3	**699**
Judgemental changes:	
Changes in post model adjustments for Stage 1, Stage 2 and Stage 3	**(126)**
Write-offs and other	**(600)**
At 31 December 2024	**3,425**
At 1 January 2023	3,434
2023 movements	211
At 31 December 2023	3,645

(1) The above table is not within the scope of the independent auditors' report.

– During the year, total ECL decreased. Stage 3 charges being mainly offset by debt sale activity on Personal Banking unsecured assets and write-off. Reductions in Stage 1 and Stage 2 ECL across NatWest Group were driven by economic uncertainty post model adjustments, stable underlying portfolio performance and modelling updates.
– In the Personal portfolios, performing book ECL reduced as a result of stable portfolio performance, reduced economic uncertainty post model adjustments and PD reductions, primarily relating to modelling updates. Furthermore, Stage 3 ECL was stable, supported by the 2024 debt sale activity on unsecured portfolios and steady Stage 3 default trends.
– In the Non-Personal portfolios there was a small reduction in total ECL. ECL increased from Stage 3 charges on a small number of customers were more than offset by stable portfolio performance, reductions in post model adjustments and write-offs.
– Judgemental ECL post model adjustments decreased from 31 December 2023. This reflected refinements to the assessment approach on the Retail Banking cost of living post model adjustment, after back-testing and Non-Personal portfolio changes with a number of customers either repaying or defaulting. Judgemental ECL post model adjustments represented 10% of total ECL (2023 – 13%). Refer to the ECL post model adjustments section for further details.

Credit risk – Banking activities

Introduction

This section details the credit risk profile of NatWest Group's banking activities. Refer to Accounting policy 2.3 and Note 14 to the consolidated financial statements for policies and critical judgements relating to impairment loss determination.

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

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

	31 December 2024			31 December 2023		
	Gross £bn	ECL £bn	Net £bn	Gross £bn	ECL £bn	Net £bn
Balance sheet total gross amortised cost and FVOCI	567.2			553.8		
In scope of IFRS 9 ECL framework	564.4			545.3		
% in scope	100%			98%		
Loans to customers - in scope - amortised cost	404.2	3.4	400.8	385.3	3.6	381.7
Loans to customers - in scope - FVOCI	-	-	-	0.1	-	0.1
Loans to banks - in scope - amortised cost	6.0	-	6.0	6.7	-	6.7
Total loans - in scope	410.2	3.4	406.8	392.1	3.6	388.5
Stage 1	363.8	0.6	363.2	348.6	0.7	347.9
Stage 2	40.5	0.8	39.7	37.9	0.9	37.0
Stage 3	5.9	2.0	3.9	5.6	2.0	3.6
Other financial assets - in scope - amortised cost	116.4	-	116.4	124.9	-	124.9
Other financial assets - in scope - FVOCI	37.8	-	37.8	28.3	-	28.3
Total other financial assets - in scope	154.2	-	154.2	153.2	-	153.2
Stage 1	153.4	-	153.4	152.0	-	152.0
Stage 2	0.8	-	0.8	1.2	-	1.2
Out of scope of IFRS 9 ECL framework	2.8	na	2.8	8.5	na	8.5
Loans to customers - out of scope - amortised cost	(0.5)	na	(0.5)	(0.4)	na	(0.4)
Loans to banks - out of scope - amortised cost	0.1	na	0.1	0.3	na	0.3
Other financial assets - out of scope - amortised cost	3.2	na	3.2	8.3	na	8.3
Other financial assets - out of scope - FVOCI	-	na	-	0.3	na	0.3

na = not applicable

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

- Settlement balances, items in the course of collection, cash balances and other non-credit risk assets of £3.3 billion (2023 – £8.6 billion). These were assessed as having no ECL unless there was evidence that they were defaulted.
- Equity shares of £0.2 billion (2023 – £0.3 billion) as not within the IFRS 9 ECL framework by definition.
- Fair value adjustments on loans hedged by interest rate swaps, where the underlying loan was within the IFRS 9 ECL scope of £(0.5) billion (2023 – £(0.3) billion).

Contingent liabilities and commitments

Total contingent liabilities (including financial guarantees) and commitments within IFRS 9 ECL scope of £140.0 billion (2023 – £132.0 billion) comprised Stage 1 £129.8 billion (2023 – £120.6 billion); Stage 2 £9.4 billion (2023 – £10.7 billion); and Stage 3 £0.8 billion (2023 – £0.7 billion).

The ECL relating to off balance sheet exposures was £0.1 billion (2023 – £0.1 billion). The total ECL in the remainder of the Credit risk section of £3.4 billion (2023 – £3.6 billion) included ECL for both on and off-balance sheet exposures for non-disposal groups.

Credit risk – Banking activities continued

Segment analysis – portfolio summary (audited)

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

						Of which:						
						Personal				Non-personal		
	Retail Banking	Private Banking	Commercial & Institutional	Central items & other	Total	Retail Banking	Private Banking	Commercial & Institutional	Central items & other	Private Banking	Commercial & Institutional	Central items & other
2024	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Loans - amortised cost and FVOCI (1,2)												
Stage 1	**182,366**	**17,155**	**128,988**	**35,312**	**363,821**	**182,366**	**13,726**	**2,226**	**-**	**3,429**	**126,762**	**35,312**
Stage 2	**24,242**	**844**	**15,339**	**49**	**40,474**	**24,242**	**352**	**42**	**-**	**492**	**15,297**	**49**
Stage 3	**3,268**	**322**	**2,340**	**-**	**5,930**	**3,268**	**251**	**52**	**-**	**71**	**2,288**	**-**
Of which: individual	***-***	***233***	***1,052***	***-***	***1,285***	***-***	***162***	***5***	***-***	***71***	***1,047***	***-***
Of which: collective	***3,268***	***89***	***1,288***	***-***	***4,645***	***3,268***	***89***	***47***	***-***	***-***	***1,241***	***-***
Total	**209,876**	**18,321**	**146,667**	**35,361**	**410,225**	**209,876**	**14,329**	**2,320**	**-**	**3,992**	**144,347**	**35,361**
ECL provisions (3)												
Stage 1	**279**	**16**	**289**	**14**	**598**	**279**	**2**	**3**	**-**	**14**	**286**	**14**
Stage 2	**428**	**12**	**346**	**1**	**787**	**428**	**1**	**-**	**-**	**11**	**346**	**1**
Stage 3	**1,063**	**36**	**941**	**-**	**2,040**	**1,063**	**21**	**15**	**-**	**15**	**926**	**-**
Of which: individual	***-***	***36***	***415***	***-***	***451***	***-***	***21***	***7***	***-***	***15***	***408***	***-***
Of which: collective	***1,063***	***-***	***526***	***-***	***1,589***	***1,063***	***-***	***8***	***-***	***-***	***518***	***-***
Total	**1,770**	**64**	**1,576**	**15**	**3,425**	**1,770**	**24**	**18**	**-**	**40**	**1,558**	**15**

For the notes to this table refer to page 201.

Credit risk – Banking activities continued

Segment analysis – portfolio summary (audited)

						Of which:						
						Personal				Non-personal		
2024	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m
ECL provisions coverage (4)												
Stage 1 (%)	0.15	0.09	0.22	0.04	0.16	0.15	0.01	0.13	-	0.41	0.23	0.04
Stage 2 (%)	1.77	1.42	2.26	2.04	1.94	1.77	0.28	-	-	2.24	2.26	2.04
Stage 3 (%)	32.53	11.18	40.21	-	34.40	32.53	8.37	28.85	-	21.13	40.47	-
Total	0.84	0.35	1.07	0.04	0.83	0.84	0.17	0.78	-	1.00	1.08	0.04
Impairment (releases)/losses												
ECL (release)/charge (5)	282	(11)	98	(10)	359	282	1	1	-	(12)	97	(10)
Stage 1	(208)	(11)	(205)	(14)	(438)	(208)	(2)	(1)	-	(9)	(204)	(14)
Stage 2	278	(1)	79	4	360	278	2	1	-	(3)	78	4
Stage 3	212	1	224	-	437	212	1	1	-	-	223	-
Of which: individual	-	1	*191*	-	*192*	-	*1*	*(1)*	-	-	*192*	-
Of which: collective	*212*	-	*33*	-	*245*	*212*	-	*2*	-	-	*31*	-
Total	282	(11)	98	(10)	359	282	1	1	-	(12)	97	(10)
Amounts written-off	430	1	223	-	654	430	1	2	-	-	221	-
Of which: individual	-	*1*	*143*	-	*144*	-	*1*	-	-	-	*143*	-
Of which: collective	*430*	-	*80*	-	*510*	*430*	-	*2*	-	-	*78*	-

For the notes to this table refer to page 201.

Credit risk – Banking activities continued

Segment analysis – portfolio summary (audited)

						Of which:						
						Personal				Non-personal		
2023	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m
Loans - amortised cost and FVOCI (1,2)												
Stage 1	182,297	17,565	119,047	29,677	348,586	182,297	14,296	2,268	4	3,269	116,779	29,673
Stage 2	21,208	906	15,771	6	37,891	21,208	255	43	3	651	15,728	3
Stage 3	3,133	258	2,162	10	5,563	3,133	209	52	6	49	2,110	4
Of which: individual	*-*	*186*	*845*	*-*	*1,031*	*-*	*137*	*5*	*-*	*49*	*840*	*-*
Of which: collective	*3,133*	*72*	*1,317*	*10*	*4,532*	*3,133*	*72*	*47*	*6*	*-*	*1,270*	*4*
Subtotal excluding disposal group loans	206,638	18,729	136,980	29,693	392,040	206,638	14,760	2,363	13	3,969	134,617	29,680
Disposal group loans				67	67				8			59
Total				29,760	392,107				21			29,739
ECL provisions (3)												
Stage 1	306	20	356	27	709	306	3	2	5	17	354	22
Stage 2	502	20	447	7	976	502	2	-	2	18	447	5
Stage 3	1,097	34	819	10	1,960	1,097	20	16	9	14	803	1
Of which: individual	*-*	*34*	*298*	*-*	*332*	*-*	*20*	*5*	*-*	*14*	*293*	*-*
Of which: collective	*1,097*	*-*	*521*	*10*	*1,628*	*1,097*	*-*	*11*	*9*	*-*	*510*	*1*
Subtotal excluding ECL provisions on disposal group loans	1,905	74	1,622	44	3,645	1,905	25	18	16	49	1,604	28
ECL provisions on disposal group loans				36	36				2			34
Total				80	3,681				18			62

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

Credit risk – Banking activities continued

Segment analysis – portfolio summary (audited)

						Of which: Personal				Of which: Non-personal		
2023	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m
ECL provisions coverage (4)												
Stage 1 (%)	0.17	0.11	0.30	0.09	0.20	0.17	0.02	0.09	nm	0.52	0.30	0.07
Stage 2 (%)	2.37	2.21	2.83	nm	2.58	2.37	0.78	-	66.67	2.76	2.84	nm
Stage 3 (%)	35.01	13.18	37.88	100.00	35.23	35.01	9.57	30.77	nm	28.57	38.06	25.00
ECL provisions coverage excluding disposal group loans	0.92	0.40	1.18	0.15	0.93	0.92	0.17	0.76	nm	1.23	1.19	0.09
ECL provisions coverage on disposal group loans				53.73	53.73				25.00			57.63
Total				0.27	0.94				85.71			0.21
Impairment (releases)/losses												
ECL (release)/charge (5)	465	14	94	5	578	465	(3)	5	15	17	89	(10)
Stage 1	(172)	(9)	(222)	6	(397)	(172)	(7)	(3)	4	(2)	(219)	2
Stage 2	440	15	182	8	645	440	4	-	7	11	182	1
Stage 3	197	8	134	(9)	330	197	-	8	4	8	126	(13)
Of which: individual	*-*	*8*	*80*	*1*	*89*	*-*	*-*	*5*	*-*	*8*	*75*	*1*
Of which: collective	*197*	*-*	*54*	*(10)*	*241*	*197*	*-*	*3*	*4*	*-*	*51*	*(14)*
Continuing operations	465	14	94	5	578	465	(3)	5	15	17	89	(10)
Discontinued operations				(6)	(6)				-			(6)
Total				(1)	572				15			(16)
Amounts written-off	188	2	122	7	319	188	2	1	2	-	121	5
Of which: individual	*-*	*2*	*40*	*-*	*42*	*-*	*2*	*1*	*-*	*-*	*39*	*-*
Of which: collective	*188*	*-*	*82*	*7*	*277*	*188*	*-*	*-*	*2*	*-*	*82*	*5*

(1) The table shows gross loans only and excludes amounts that were outside the scope of the ECL framework. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totalling £91.8 billion (2023 – £103.1 billion) and debt securities of £62.4 billion (2023 – £50.1 billion).
(2) Includes loans to customers and banks.
(3) Includes £4 million (2023 – £9 million) related to assets classified as FVOCI and £0.1 billion (2023 – £0.1 billion) related to off-balance sheet exposures.
(4) ECL provisions coverage is calculated as ECL provisions divided by loans – amortised cost and FVOCI. It is calculated on loans and total ECL provisions, including ECL for other (non-loan) assets and unutilised exposure. Some segments with a high proportion of debt securities or unutilised exposure may result in a not meaningful coverage ratio.
(5) Includes a £12 million release (2023 – £16 million releasee) related to other financial assets, of which £4 million release (2023 – £6 million charge) related to assets classified as FVOCI and includes a £5 million release (2023 – £9 million release) related to contingent liabilities.

Segmental loans and impairment metrics (audited)

- **Retail Banking** – Loans to customers increased during the year as a result of continued growth in mortgages, including the Metro Bank portfolio acquisition and credit card lending. Arrears balances increased during 2024, however, this was in line with expectations and wider-industry trends following periods of balance growth and normalisation since COVID-19. Arrears inflow rates remained stable. The reduction in good book ECL coverage in 2024 was primarily driven by unsecured PD modelling updates, alongside reductions in economic uncertainty post model adjustments and stable underlying portfolio performance. Post model adjustments to capture increased affordability pressures on customers due to high inflation and interest rates decreased during the year reflecting a revision of the assessment approach, supported by back-testing of default outcomes. Underpinned by good book ECL coverage dynamics, total ECL coverage decreased during the year and was further amplified by 2024 debt sale activity on unsecured portfolios. Flow rates into Stage 3 reduced during H1 2024 and remained consistent across H2 2024.
- **Commercial & Institutional** – Increased lending during 2024 was driven by corporate and non-bank financial institutions sectors, aligned to customer strategy. Sector appetite continues to be reviewed regularly. Portfolio performance remained stable with a small reduction in total ECL. Stage 1 and Stage 2 ECL and coverage decreased due to reductions in post model adjustments, net improvements in economic scenarios and weightings along with stable portfolio performance. Stage 3 ECL increased due to a small number of large counterparties, but the total number of individual defaults remained low.

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

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

	Personal				Non-personal				
2024	Mortgages (1) £m	Credit cards £m	Other personal £m	Total £m	Corporate and Other (2) £m	FI £m	Sovereign £m	Total £m	Total £m
Loans by geography	209,846	6,930	9,749	226,525	111,734	70,321	1,645	183,700	410,225
- UK	209,846	6,930	9,749	226,525	97,409	43,412	562	141,383	367,908
- Other Europe	-	-	-	-	6,311	14,747	766	21,824	21,824
- RoW	-	-	-	-	8,014	12,162	317	20,493	20,493
Loans by stage	209,846	6,930	9,749	226,525	111,734	70,321	1,645	183,700	410,225
- Stage 1	186,250	4,801	7,267	198,318	94,991	69,021	1,491	165,503	363,821
- Stage 2	21,061	1,953	1,622	24,636	14,464	1,241	133	15,838	40,474
- Stage 3	2,535	176	860	3,571	2,279	59	21	2,359	5,930
- Of which: individual	141	-	26	167	1,046	51	21	1,118	1,285
- Of which: collective	2,394	176	834	3,404	1,233	8	-	1,241	4,645
Loans - past due analysis (2)	209,846	6,930	9,749	226,525	111,734	70,321	1,645	183,700	410,225
- Not past due	206,739	6,721	8,865	222,325	107,855	70,055	1,627	179,537	401,862
- Past due 1-30 days	1,404	50	70	1,524	2,530	211	-	2,741	4,265
- Past due 31-90 days	580	51	99	730	398	2	18	418	1,148
- Past due 91-180 days	408	41	96	545	139	49	-	188	733
- Past due >180 days	715	67	619	1,401	812	4	-	816	2,217
Loans - Stage 2	21,061	1,953	1,622	24,636	14,464	1,241	133	15,838	40,474
- Not past due	19,939	1,889	1,521	23,349	13,485	1,228	133	14,846	38,195
- Past due 1-30 days	853	31	37	921	640	11	-	651	1,572
- Past due 31-90 days	269	33	64	366	339	2	-	341	707
Weighted average life (4)									
- ECL measurement (years)	8	4	6	6	6	2	1	6	6
Weighted average 12 months PDs (4)									
- IFRS 9 (%)	0.51	3.23	4.59	0.76	1.24	0.16	5.51	0.86	0.80
- Basel (%)	0.68	3.65	3.18	0.87	1.11	0.15	4.16	0.76	0.82
ECL provisions by geography	462	381	969	1,812	1,504	90	19	1,613	3,425
- UK	462	381	969	1,812	1,335	37	12	1,384	3,196
- Other Europe	-	-	-	-	109	9	-	118	118
- RoW	-	-	-	-	60	44	7	111	111

For the notes to this table refer to page 205.

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

2024	Personal				Non-personal				
	Mortgages (1) £m	Credit cards £m	Other personal £m	Total £m	Corporate and Other (2) £m	FI £m	Sovereign £m	Total £m	Total £m
ECL provisions by stage	462	381	969	1,812	1,504	90	19	1,613	3,425
- Stage 1	*77*	*77*	*130*	*284*	*264*	*38*	*12*	*314*	*598*
- Stage 2	*60*	*186*	*183*	*429*	*344*	*12*	*2*	*358*	*787*
- Stage 3	*325*	*118*	*656*	*1,099*	*896*	*40*	*5*	*941*	*2,040*
- Of which: individual	*11*	*-*	*17*	*28*	*382*	*36*	*5*	*423*	*451*
- Of which: collective	*314*	*118*	*639*	*1,071*	*514*	*4*	*-*	*518*	*1,589*
ECL provisions coverage (%)	0.22	5.50	9.94	0.80	1.35	0.13	1.16	0.88	0.83
- Stage 1 (%)	*0.04*	*1.60*	*1.79*	*0.14*	*0.28*	*0.06*	*0.80*	*0.19*	*0.16*
- Stage 2 (%)	*0.28*	*9.52*	*11.28*	*1.74*	*2.38*	*0.97*	*1.50*	*2.26*	*1.94*
- Stage 3 (%)	*12.82*	*67.05*	*76.28*	*30.78*	*39.32*	*67.80*	*23.81*	*39.89*	*34.40*
ECL (release)/charge	8	115	161	284	55	19	1	75	359
- UK	*8*	*115*	*161*	*284*	*43*	*1*	*-*	*44*	*328*
- Other Europe	*-*	*-*	*-*	*-*	*17*	*(7)*	*-*	*10*	*10*
- RoW	*-*	*-*	*-*	*-*	*(5)*	*25*	*1*	*21*	*21*
Amounts written-off	18	102	313	433	221	-	-	221	654
Loans by residual maturity	209,846	6,930	9,749	226,525	111,734	70,321	1,645	183,700	410,225
- <1 year	*3,367*	*3,903*	*3,186*	*10,456*	*34,929*	*54,971*	*822*	*90,722*	*101,178*
- 1-5 year	*11,651*	*3,027*	*5,551*	*20,229*	*48,075*	*10,967*	*488*	*59,530*	*79,759*
- > 5 < 15 year	*45,454*	*-*	*1,006*	*46,460*	*20,623*	*4,270*	*298*	*25,191*	*71,651*
- > 15 year	*149,374*	*-*	*6*	*149,380*	*8,107*	*113*	*37*	*8,257*	*157,637*
Other financial assets by asset quality (3)	-	-	-	-	3,644	31,102	119,502	154,248	154,248
- AQ1-AQ4	*-*	*-*	*-*	*-*	*3,639*	*30,743*	*119,502*	*153,884*	*153,884*
- AQ5-AQ8	*-*	*-*	*-*	*-*	*5*	*359*	*-*	*364*	*364*
Off-balance sheet	13,806	20,135	7,947	41,888	75,964	21,925	239	98,128	140,016
- Loan commitments	*13,806*	*20,135*	*7,906*	*41,847*	*72,940*	*20,341*	*239*	*93,520*	*135,367*
- Financial guarantees	*-*	*-*	*41*	*41*	*3,024*	*1,584*	*-*	*4,608*	*4,649*
Off-balance sheet by asset quality (3)	13,806	20,135	7,947	41,888	75,964	21,925	239	98,128	140,016
- AQ1-AQ4	*12,951*	*510*	*6,568*	*20,029*	*47,896*	*20,063*	*155*	*68,114*	*88,143*
- AQ5-AQ8	*839*	*19,276*	*1,336*	*21,451*	*27,657*	*1,813*	*21*	*29,491*	*50,942*
- AQ9	*1*	*12*	*17*	*30*	*19*	*-*	*63*	*82*	*112*
- AQ10	*15*	*337*	*26*	*378*	*392*	*49*	*-*	*441*	*819*

For the notes to this table refer to page 205.

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

	Personal				Non-personal				
	Mortgages (1)	Credit cards	Other personal	Total	Corporate and Other (2)	FI	Sovereign	Total	Total
2023	£m	£m	£m	£m	£m	£m	£m	£m	£m
Loans by geography	208,275	5,904	9,595	223,774	108,546	57,087	2,633	168,266	392,040
- UK	*208,275*	*5,893*	*9,592*	*223,760*	*95,736*	*39,906*	*2,016*	*137,658*	*361,418*
- Other Europe	-	*11*	*3*	*14*	*6,368*	*8,144*	*399*	*14,911*	*14,925*
- RoW	-	-	-	-	*6,442*	*9,037*	*218*	*15,697*	*15,697*
Loans by stage	208,275	5,904	9,595	223,774	108,546	57,087	2,633	168,266	392,040
- Stage 1	*188,140*	*3,742*	*6,983*	*198,865*	*91,006*	*56,105*	*2,610*	*149,721*	*348,586*
- Stage 2	*17,854*	*2,022*	*1,633*	*21,509*	*15,415*	*966*	*1*	*16,382*	*37,891*
- Stage 3	*2,281*	*140*	*979*	*3,400*	*2,125*	*16*	*22*	*2,163*	*5,563*
- Of which: individual	*122*	-	*20*	*142*	*865*	*2*	*22*	*889*	*1,031*
- Of which: collective	*2,159*	*140*	*959*	*3,258*	*1,260*	*14*	-	*1,274*	*4,532*
Loans - past due analysis (2)	208,275	5,904	9,595	223,774	108,546	57,087	2,633	168,266	392,040
- Not past due	*205,405*	*5,743*	*8,578*	*219,726*	*104,316*	*56,735*	*2,633*	*163,684*	*383,410*
- Past due 1-30 days	*1,178*	*41*	*71*	*1,290*	*2,713*	*332*	-	*3,045*	*4,335*
- Past due 31-90 days	*518*	*38*	*112*	*668*	*616*	*12*	-	*628*	*1,296*
- Past due 91-180 days	*445*	*32*	*103*	*580*	*113*	*2*	-	*115*	*695*
- Past due >180 days	*729*	*50*	*731*	*1,510*	*788*	*6*	-	*794*	*2,304*
Loans - Stage 2	17,854	2,022	1,633	21,509	15,415	966	1	16,382	37,891
- Not past due	*16,803*	*1,971*	*1,529*	*20,303*	*14,358*	*932*	*1*	*15,291*	*35,594*
- Past due 1-30 days	*765*	*27*	*40*	*832*	*616*	*24*	-	*640*	*1,472*
- Past due 31-90 days	*286*	*24*	*64*	*374*	*441*	*10*	-	*451*	*825*
Weighted average life (4)									
- ECL measurement (years)	9	3	6	6	6	2	-	6	6
Weighted average 12 months PDs (4)									
- IFRS 9 (%)	0.50	3.45	5.29	0.75	1.55	0.19	0.37	1.07	0.89
- Basel (%)	0.67	3.37	3.15	0.84	1.16	0.17	0.37	0.81	0.83
ECL provisions by geography	420	376	1,168	1,964	1,599	66	16	1,681	3,645
- UK	*420*	*365*	*1,163*	*1,948*	*1,383*	*38*	*13*	*1,434*	*3,382*
- Other Europe	-	*11*	*5*	*16*	*159*	*13*	-	*172*	*188*
- RoW	-	-	-	-	*57*	*15*	*3*	*75*	*75*

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

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

2023	Personal				Non-personal				
	Mortgages (1) £m	Credit cards £m	Other personal £m	Total £m	Corporate and Other (2) £m	FI £m	Sovereign £m	Total £m	Total £m
ECL provisions by stage	420	376	1,168	1,964	1,599	66	16	1,681	3,645
- Stage 1	88	76	152	316	336	44	13	393	709
- Stage 2	61	207	238	506	454	15	1	470	976
- Stage 3	271	93	778	1,142	809	7	2	818	1,960
- Of which: individual	12	-	14	26	302	2	2	306	332
- Of which: collective	259	93	764	1,116	507	5	-	512	1,628
ECL provisions coverage (%)	0.20	6.37	12.17	0.88	1.47	0.12	0.61	1.00	0.93
- Stage 1 (%)	0.05	2.03	2.18	0.16	0.37	0.08	0.50	0.26	0.20
- Stage 2 (%)	0.34	10.24	14.57	2.35	2.95	1.55	100.00	2.87	2.58
- Stage 3 (%)	11.88	66.43	79.47	33.59	38.07	43.75	9.09	37.82	35.23
ECL (release)/charge	35	193	254	482	92	6	(2)	96	578
- UK	35	184	249	468	103	(4)	(2)	97	565
- Other Europe	-	9	5	14	39	12	-	51	65
- RoW	-	-	-	-	(50)	(2)	-	(52)	(52)
Amounts written-off	32	70	91	193	125	1	-	126	319
Loans by residual maturity	208,275	5,904	9,595	223,774	108,546	57,087	2,633	168,266	392,040
- <1 year	3,375	3,398	3,169	9,942	31,008	43,497	489	74,994	84,936
- 1-5 year	9,508	2,506	5,431	17,445	49,789	11,616	1,872	63,277	80,722
- > 5 < 15 year	46,453	-	993	47,446	19,868	1,939	199	22,006	69,452
- > 15 year	148,939	-	2	148,941	7,881	35	73	7,989	156,930
Other financial assets by asset quality (3)	-	-	-	-	2,690	26,816	123,683	153,189	153,189
- AQ1-AQ4	-	-	-	-	2,690	26,084	123,683	152,457	152,457
- AQ5-AQ8	-	-	-	-	-	732	-	732	732
Off-balance sheet	9,843	17,284	8,462	35,589	73,921	22,221	227	96,369	131,958
- Loan commitments	9,843	17,284	8,417	35,544	70,942	20,765	227	91,934	127,478
- Financial guarantees	-	-	45	45	2,979	1,456	-	4,435	4,480
Off-balance sheet by asset quality (3)	9,843	17,284	8,462	35,589	73,921	22,221	227	96,369	131,958
- AQ1-AQ4	9,099	448	7,271	16,818	47,296	20,644	165	68,105	84,923
- AQ5-AQ8	721	16,518	1,162	18,401	26,296	1,574	45	27,915	46,316
- AQ9	7	6	4	17	15	-	-	15	32
- AQ10	16	312	25	353	314	3	17	334	687

(1) Includes a portion of Private Banking lending secured against residential real estate, in line with ECL calculation methodology. Private Banking and RBS International mortgages are reported in UK, reflecting the country of lending origination and includes crown dependencies.
(2) Previously published sectors for the Non-personal portfolio have been re-presented to reflect internal sector reporting. Property is now included in corporate and other.
(3) AQ bandings are based on Basel PDs and mapping is as follows:

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

£0.3 billion (2023 – £0.3 billion) of AQ10 Personal balances primarily relate to loan commitments, the drawdown of which is effectively prohibited.

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

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

The table below shows ECL by stage, for the Personal portfolio and Non-Personal portfolio including the three largest borrowing sector clusters included in corporate and other.

	Loans - amortised cost and FVOCI				Off-balance sheet		ECL provisions			
	Stage 1	Stage 2	Stage 3	Total	Loan commitments	Contingent liabilities	Stage 1	Stage 2	Stage 3	Total
2024	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Personal	**198,318**	**24,636**	**3,571**	**226,525**	**41,847**	**41**	**284**	**429**	**1,099**	**1,812**
Mortgages	**186,250**	**21,061**	**2,535**	**209,846**	**13,806**	**-**	**77**	**60**	**325**	**462**
Credit cards	**4,801**	**1,953**	**176**	**6,930**	**20,135**	**-**	**77**	**186**	**118**	**381**
Other personal	**7,267**	**1,622**	**860**	**9,749**	**7,906**	**41**	**130**	**183**	**656**	**969**
Non-personal	**165,503**	**15,838**	**2,359**	**183,700**	**93,520**	**4,608**	**314**	**358**	**941**	**1,613**
Financial institutions (1)	**69,021**	**1,241**	**59**	**70,321**	**20,341**	**1,584**	**38**	**12**	**40**	**90**
Sovereigns	**1,491**	**133**	**21**	**1,645**	**239**	**-**	**12**	**2**	**5**	**19**
Corporate and other (2)	**94,991**	**14,464**	**2,279**	**111,734**	**72,940**	**3,024**	**264**	**344**	**896**	**1,504**
Of which:										
Commercial real estate	**16,191**	**1,517**	**433**	**18,141**	**6,661**	**143**	**70**	**30**	**146**	**246**
Consumer industries	**13,312**	**3,015**	**444**	**16,771**	**10,706**	**595**	**45**	**90**	**188**	**323**
Mobility and logistics	**13,363**	**2,384**	**148**	**15,895**	**9,367**	**595**	**26**	**35**	**67**	**128**
Total	**363,821**	**40,474**	**5,930**	**410,225**	**135,367**	**4,649**	**598**	**787**	**2,040**	**3,425**

	Loans - amortised cost and FVOCI				Off-balance sheet		ECL provisions			
	Stage 1	Stage 2	Stage 3	Total	Loan commitments	Contingent liabilities	Stage 1	Stage 2	Stage 3	Total
2023	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Personal	198,865	21,509	3,400	223,774	35,544	45	316	506	1,142	1,964
Mortgages	188,140	17,854	2,281	208,275	9,843	-	88	61	271	420
Credit cards	3,742	2,022	140	5,904	17,284	-	76	207	93	376
Other personal	6,983	1,633	979	9,595	8,417	45	152	238	778	1,168
Non-personal	149,721	16,382	2,163	168,266	91,934	4,435	393	470	818	1,681
Financial institutions (1)	56,105	966	16	57,087	20,765	1,456	44	15	7	66
Sovereigns	2,610	1	22	2,633	227	-	13	1	2	16
Corporate and other (2)	91,006	15,415	2,125	108,546	70,942	2,979	336	454	809	1,599
Of which:										
Commercial real estate	*14,998*	*2,040*	*374*	*17,412*	*7,155*	*106*	*86*	*58*	*112*	*256*
Consumer industries	*12,586*	*4,050*	*541*	*17,177*	*10,209*	*649*	*61*	*119*	*222*	*402*
Mobility and logistics	*13,186*	*2,074*	*143*	*15,403*	*8,728*	*496*	*33*	*39*	*48*	*120*
Total	348,586	37,891	5,563	392,040	127,478	4,480	709	976	1,960	3,645

(1) Includes transactions, such as securitisations, where the underlying assets may be in other sectors.
(2) Previously published sectors for the Non-personal portfolio have been re-presented to reflect internal sector reporting. Property is now included in corporate and other.

Credit risk – Banking activities continued

Non-personal forbearance (audited)

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

2024	Corporate and Other £m	Financial institution £m	Sovereign £m	Total £m
Forbearance (flow)	**3,359**	**119**	**18**	**3,496**
Forbearance (stock)	**4,556**	**106**	**18**	**4,680**
Heightened Monitoring and Risk of Credit Loss	**5,931**	**150**	**1**	**6,082**
2023				
Forbearance (flow)	3,484	56	22	3,562
Forbearance (stock)	4,823	70	22	4,915
Heightened Monitoring and Risk of Credit Loss	5,208	276	-	5,484

Sector analysis – portfolio summary (audited)

- **Loans by geography and sector** – In line with NatWest Group's strategic focus, exposures continued to be mainly in the UK.
- **Loans by stage** – The increase in Stage 1 reflected the growth in Non-Personal lending, alongside continued growth in Personal unsecured portfolios. There was an increase in Stage 2 balances in 2024, driven by mortgages, but noting that there was a significant proportion of mortgage cases in Stage 2, due to PD persistence only. The modest increase in Stage 3 balance was mainly due to a small number of large corporate customers, with Personal lending increases largely mitigated by debt sale activity on unsecured assets.
- **Loans – Past due analysis** – Within the Personal portfolio, arrears balances increased during 2024, however, this was in line with expectations following periods of balance growth and normalisation since COVID-19. Arrears inflow rates remained stable. In Non-Personal, past due composition was stable.
- **Weighted average 12 months PDs** – Both IFRS 9 and Basel PDs remained broadly stable during the year. In the Personal portfolios, there was a notable reduction in unsecured IFRS 9 PDs due to modelling updates. In Non-Personal, some reductions were observed in IFRS 9 PDs in the corporate portfolios due to economic and portfolio improvements. PDs in sovereigns increased significantly due to new lending but all new lending is fully backed by government guarantees.
- **ECL provisions by stage and ECL provisions coverage** – Overall provisions coverage reduced since 31 December 2023. In the performing book, this was mainly a result of stable portfolio performance, reduced economic uncertainty post model adjustments and PD reductions across a number of portfolios, primarily relating to modelling updates in Personal. Furthermore, Stage 3 and total book coverage reduced, supported by the 2024 debt sale activity on Personal unsecured portfolios.
- **ECL charge –** The full year impairment charge for 2024 of £359 million primarily reflected stable default performance, alongside reduced PD levels and impairment releases driven by the reduction in economic uncertainty post model adjustments.
- **Loans by residual maturity –** The maturity profile of the portfolios remained consistent with prior periods. In mortgages, as expected, the vast majority of exposures were greater than five years. In unsecured lending, cards and other, exposures were concentrated in less than five years. In Non-Personal, most loans mature in less than five years.
- **Other financial assets by asset quality** – Consisting almost entirely of balances at central banks and debt securities held in the course of treasury related management activities, these assets were mainly within the AQ1-AQ4 bands.
- **Off-balance sheet exposures by asset quality** – In Personal, undrawn exposures were reflective of available credit lines in credit cards and current accounts. Additionally, the mortgage portfolio had undrawn exposures, where a formal offer had been made to a customer but had not yet drawn down; the value increased in line with the pipeline of offers. There was also a legacy portfolio of flexible mortgages where a customer had the right and ability to draw down further funds. In Non-Personal, off-balance sheet exposures increased moderately driven by loan commitments. Asset quality was mainly in the AQ1-AQ8 bandings.
- **Non-Personal problem debt –** There was an increase in exposures during 2024 driven by corporate sectors, although volumes were flat. The framework is closely monitored, and there were no material thematic concerns.
- **Non-Personal forbearance –** Forbearance was lower at the end of 2024, compared to 2023, reflecting stable portfolio performance.

Credit risk – Banking activities continued

Credit risk enhancement and mitigation (audited)

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

	Gross		Maximum credit risk		CREM by type			CREM coverage		Exposure post CREM	
	exposure	ECL	Total	Stage 3	Financial (1)	Property	Other (2)	Total	Stage 3	Total	Stage 3
2024	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Financial assets											
Cash and balances at central banks	91.8	-	91.8	-	-	-	-	-	-	91.8	-
Loans - amortised cost (3)	410.2	3.3	406.9	3.9	46.3	253.0	25.5	324.8	3.4	82.1	0.5
Personal (4)	226.5	1.8	224.7	2.5	0.8	209.1	-	209.9	2.2	14.8	0.3
Non-personal (5)	183.7	1.5	182.2	1.4	45.5	43.9	25.5	114.9	1.2	67.3	0.2
Debt securities	62.5	-	62.5	-	0.1	-	-	0.1	-	62.4	-
Total financial assets	564.5	3.3	561.2	3.9	46.4	253.0	25.5	324.9	3.4	236.3	0.5
Contingent liabilities and commitments											
Personal (6,7)	41.9	-	41.9	0.4	1.1	3.7	-	4.8	-	37.1	0.4
Non-personal	98.1	0.1	98.0	0.4	3.1	8.2	5.1	16.4	0.1	81.6	0.3
Total off-balance sheet	140.0	0.1	139.9	0.8	4.2	11.9	5.1	21.2	0.1	118.7	0.7
Total exposure	704.5	3.4	701.1	4.7	50.6	264.9	30.6	346.1	3.5	355.0	1.2
2023											
Financial assets											
Cash and balances at central banks	103.1	-	103.1	-	-	-	-	-	-	103.1	-
Loans - amortised cost (3)	392.0	3.5	388.5	3.5	37.4	248.2	21.8	307.4	3.1	81.1	0.4
Personal (4)	*223.7*	*1.9*	*221.8*	*2.2*	*0.9*	*207.5*	-	*208.4*	*2.0*	*13.4*	*0.2*
Non-personal (5)	*168.3*	*1.6*	*166.7*	*1.3*	*36.5*	*40.7*	*21.8*	*99.0*	*1.1*	*67.7*	*0.2*
Debt securities	50.1	-	50.1	-	-	-	-	-	-	50.1	-
Total financial assets	545.2	3.5	541.7	3.5	37.4	248.2	21.8	307.4	3.1	234.3	0.4
Contingent liabilities and commitments											
Personal (6,7)	35.6	-	35.6	0.3	1.0	4.0	-	5.0	-	30.6	0.3
Non-personal	96.4	0.1	96.3	0.4	2.6	7.1	4.1	13.8	0.1	82.5	0.3
Total off-balance sheet	132.0	0.1	131.9	0.7	3.6	11.1	4.1	18.8	0.1	113.1	0.6
Total exposure	677.2	3.6	673.6	4.2	41.0	259.3	25.9	326.2	3.2	347.4	1.0

(1) Includes cash and securities collateral.
(2) Includes guarantees, charges over trade debtors, other asset finance related physical collateral as well as the amount by which credit risk exposure is reduced through netting arrangements, mainly cash management pooling, which give NatWest Group a legal right to set off the financial asset against a financial liability due to the same counterparty. Any additional credit risk mitigation from a synthetic securitization is not included in the table above.
(3) NatWest Group holds collateral in respect of individual loans – amortised cost to banks and customers. This collateral includes mortgages over property (both personal and commercial); charges over business assets such as plant and equipment; inventories and trade debtors; and guarantees of lending from parties other than the borrower. NatWest Group obtains collateral in the form of securities in reverse repurchase agreements. Collateral values are capped at the value of the loan.
(4) Stage 3 mortgage exposures have relatively limited uncovered exposure reflecting the security held. On unsecured credit cards and other personal borrowing, the residual uncovered amount reflects historical experience of continued cash recovery post default through ongoing engagement with customers.
(5) Stage 3 exposures post credit risk enhancement and mitigation in Non-personal mainly represent enterprise value and the impact of written down collateral values; an individual assessment to determine ECL will consider multiple scenarios and in some instances allocate a probability weighting to a collateral value in excess of the written down value.
(6) £0.3 billion (2023 – £0.3 billion) Personal Stage 3 balances primarily relate to loan commitments, the draw down of which is effectively prohibited.
(7) The Personal gross exposure value includes £10.1 billion (2023 – £5.9 billion) in respect of pipeline mortgages where a committed offer has been made to a customer but where the funds have not yet been drawn down. When drawn down, the exposure would be covered by a security over the borrower's property.

Credit risk – Banking activities continued

Personal portfolio (audited)

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

	2024				
Personal lending	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
Mortgages	194,865	12,826	2,161	-	209,852
Of which:					
Owner occupied	176,137	11,348	1,457	-	188,942
Buy-to-let	18,728	1,478	704	-	20,910
Interest only	22,186	11,276	437	-	33,899
Mixed (1)	10,384	40	8	-	10,432
ECL provisions (2)	440	12	10	-	462
Other personal lending (3)	15,045	1,301	242	-	16,588
ECL provisions (2)	1,330	12	3	-	1,345
Total personal lending	209,910	14,127	2,403	-	226,440
Mortgage LTV ratios					
- Owner occupied	56%	59%	56%	-	56%
- *Stage 1*	*56%*	*59%*	*55%*	-	*56%*
- *Stage 2*	*55%*	*61%*	*56%*	-	*55%*
- *Stage 3*	*50%*	*64%*	*74%*	-	*51%*
- Buy-to-let	53%	60%	52%	-	53%
- *Stage 1*	*54%*	*60%*	*51%*	-	*54%*
- *Stage 2*	*52%*	*57%*	*55%*	-	*52%*
- *Stage 3*	*52%*	*56%*	*59%*	-	*53%*
Gross new mortgage lending	26,440	1,395	257	-	28,092
Of which:					
Owner occupied	25,300	1,266	183	-	26,749
- LTV > 90%	888	-	-	-	888
Weighted average LTV (4)	70%	63%	71%	-	70%
Buy-to-let	1,140	129	74	-	1,343
Weighted average LTV (4)	61%	62%	56%	-	61%
Interest only	1,575	1,238	42	-	2,855
Mixed (1)	1,150	-	1	-	1,151
Mortgage forbearance					
Forbearance flow (5)	473	8	6	-	487
Forbearance stock	1,680	20	15	-	1,715
Current	*1,214*	*9*	*10*	-	*1,233*
1-3 months in arrears	*146*	*9*	-	-	*155*
>3 months in arrears	*320*	*2*	*5*	-	*327*

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

Credit risk – Banking activities continued

Personal portfolio (audited)

	2023				
Personal lending	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
Mortgages	192,915	13,222	2,200	-	208,337
Of which:					
Owner occupied	174,167	11,629	1,464	-	187,260
Buy-to-let	18,748	1,593	736	-	21,077
Interest only	25,805	11,631	461	-	37,897
Mixed (1)	10,068	25	10	-	10,103
ECL provisions (2)	397	12	6	-	415
Other personal lending (3)	13,758	1,395	222	13	15,388
ECL provisions (2)	1,508	12	2	16	1,538
Total personal lending	206,673	14,617	2,422	13	223,725
Mortgage LTV ratios					
- Owner occupied	55%	59%	56%	-	55%
- Stage 1	*55%*	*59%*	*54%*	-	*55%*
- Stage 2	*54%*	*63%*	*54%*	-	*54%*
- Stage 3	*48%*	*61%*	*72%*	-	*49%*
- Buy-to-let	52%	59%	52%	-	53%
- Stage 1	*52%*	*60%*	*52%*	-	*53%*
- Stage 2	*50%*	*57%*	*49%*	-	*50%*
- Stage 3	*50%*	*53%*	*58%*	-	*51%*
Gross new mortgage lending	29,664	1,400	180	-	31,244
Of which:					
Owner occupied	27,718	1,267	136	-	29,121
- LTV > 90%	1,173	-	-	-	1,173
Weighted average LTV (4)	70%	63%	69%	-	70%
Buy-to-let	1,946	133	44	-	2,123
Weighted average LTV (4)	58%	65%	52%	-	58%
Interest only	2,680	1,224	23	-	3,927
Mixed (1)	1,568	2	-	-	1,570
Mortgage forbearance					
Forbearance flow (5)	569	22	9	-	600
Forbearance stock	1,416	28	15	-	1,459
Current	*950*	*10*	*6*	-	*966*
1-3 months in arrears	*116*	*2*	*2*	-	*120*
>3 months in arrears	*350*	*16*	*7*	-	*373*

(1) Includes accounts which have an interest only sub-account and a capital and interest sub-account to provide a more comprehensive view of interest only exposures.
(2) Retail Banking excludes a non-material amount of lending and provisions held on relatively small legacy portfolios.
(3) Comprises unsecured lending except for Private Banking, which includes both secured and unsecured lending. It excludes loans that are commercial in nature.
(4) New mortgage lending LTV reflects the LTV at the time of lending.
(5) Forbearance flows only include an account once per year, although some accounts may be subject to multiple forbearance deals. Forbearance deals post default are excluded from these flows.

Personal portfolio (audited)

Mortgage LTV distribution by stage

The table below shows gross mortgage lending and related ECL by LTV band for the Retail Banking portfolio.

	Mortgages				ECL provisions				ECL provisions coverage			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
2024	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%
≤50%	**64,040**	**8,344**	**1,159**	**73,543**	**21**	**16**	**153**	**190**	**-**	**0.2**	**13.2**	**0.3**
>50% and ≤70%	**61,739**	**7,741**	**855**	**70,335**	**29**	**23**	**104**	**156**	**-**	**0.3**	**12.2**	**0.2**
>70% and ≤80%	**25,022**	**2,361**	**173**	**27,556**	**13**	**9**	**22**	**44**	**0.1**	**0.4**	**12.7**	**0.2**
>80% and ≤90%	**16,718**	**1,769**	**85**	**18,572**	**9**	**9**	**13**	**31**	**0.1**	**0.5**	**15.3**	**0.2**
>90% and ≤100%	**4,076**	**512**	**26**	**4,614**	**2**	**3**	**5**	**10**	**-**	**0.6**	**19.2**	**0.2**
>100%	**14**	**4**	**13**	**31**	**-**	**-**	**6**	**6**	**-**	**-**	**46.2**	**19.4**
Total with LTVs	**171,609**	**20,731**	**2,311**	**194,651**	**74**	**60**	**303**	**437**	**-**	**0.3**	**13.1**	**0.2**
Other	**212**	**1**	**1**	**214**	**2**	**-**	**1**	**3**	**0.9**	**-**	**100.0**	**1.4**
Total	**171,821**	**20,732**	**2,312**	**194,865**	**76**	**60**	**304**	**440**	**-**	**0.3**	**13.1**	**0.2**
2023												
≤50%	68,092	7,447	1,145	76,684	27	18	134	179	-	0.2	11.7	0.2
>50% and ≤70%	65,777	7,011	767	73,555	35	26	85	146	0.1	0.4	11.1	0.2
>70% and ≤80%	22,537	1,633	113	24,283	13	7	15	35	0.1	0.4	13.3	0.1
>80% and ≤90%	13,583	1,143	47	14,773	9	6	7	22	0.1	0.5	14.9	0.1
>90% and ≤100%	3,008	370	14	3,392	2	3	3	8	0.1	0.8	21.4	0.2
>100%	22	6	11	39	-	-	5	5	-	-	45.5	12.8
Total with LTVs	173,019	17,610	2,097	192,726	86	60	249	395	0.1	0.3	11.9	0.2
Other	186	1	2	189	1	-	1	2	0.5	-	50.0	1.1
Total	173,205	17,611	2,099	192,915	87	60	250	397	0.1	0.3	11.9	0.2

- Mortgage balances increased during 2024 as a result of the Metro Bank mortgage portfolio acquisition. Unsecured lending grew overall, driven by growth in credit cards, prime quality whole of market lending and balance transfer segments.
- The proportion of overall interest-only mortgage balances decreased in 2024. Higher levels of interest-only at the 2023 year end were driven by the implementation of the Mortgage Charter. However, applications for Mortgage Charter support decreased during 2024 and customers have rolled-off from interest-only periods.
- Portfolios and new business were closely monitored against agreed operating limits. These included loan-to-value ratios, buy-to-let concentrations, new-build concentrations and credit quality. Lending criteria, affordability calculations and assumptions for new lending were adjusted during the year, to maintain credit quality in line with appetite and to ensure customers are assessed fairly as economic conditions change.
- Consistent with lower mortgage inflows to collections in 2024, the flow of forbearance reduced compared to the prior year.

Credit risk – Banking activities continued

Personal portfolio (audited)

Mortgage LTV distribution by region

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

	≤50%	50%≤80%	80%≤100%	>100%	Total	Weighted average LTV	Other	Total	Total	Flood risk (1,2) % of regional lending at high risk (>60)	Flood risk (1,2) % of regional lending at very high risk (>80)	Lending at high/ very high risk (3)
2024	£m	£m	£m	£m	£m	%	£m	£m	%			%
South East	**13,622**	**19,007**	**4,506**	**1**	**37,136**	**56**	**3**	**37,139**	**19**	**3.6**	**1.2**	**4.8**
Greater London	**13,951**	**18,537**	**3,391**	**2**	**35,881**	**55**	**3**	**35,884**	**18**	**4.8**	**0.9**	**5.7**
East of England	**7,776**	**11,730**	**3,211**	**2**	**22,719**	**58**	**1**	**22,720**	**12**	**2.9**	**1.4**	**4.3**
North West	**7,507**	**8,305**	**1,878**	**2**	**17,692**	**54**	**1**	**17,693**	**9**	**2.9**	**1.9**	**4.8**
South West	**6,577**	**8,455**	**2,055**	**1**	**17,088**	**56**	**1**	**17,089**	**9**	**2.6**	**1.0**	**3.6**
West Midlands	**5,379**	**6,970**	**1,683**	**1**	**14,033**	**56**	**1**	**14,034**	**7**	**1.8**	**0.6**	**2.4**
Scotland	**4,860**	**5,766**	**1,591**	**1**	**12,218**	**55**	**1**	**12,219**	**6**	**2.4**	**1.2**	**3.6**
Rest of the UK	**13,871**	**19,121**	**4,871**	**21**	**37,884**	**57**	**203**	**38,087**	**20**	**2.4**	**2.5**	**4.9**
Total	**73,543**	**97,891**	**23,186**	**31**	**194,651**	**56**	**214**	**194,865**	**100**	**3.1**	**1.4**	**4.5**
2023												
South East	14,645	18,510	3,107	1	36,263	54	2	36,265	19	3.8	1.2	5.0
Greater London	14,689	18,044	2,366	1	35,100	53	3	35,103	18	5.2	0.9	6.1
East of England	8,576	11,810	2,208	-	22,594	55	2	22,596	12	3.1	1.4	4.5
North West	7,314	8,629	1,881	2	17,826	54	2	17,828	9	3.0	1.9	4.9
South West	7,308	8,296	1,379	1	16,984	53	1	16,985	9	2.7	1.0	3.7
West Midlands	5,391	7,072	1,404	1	13,868	55	1	13,869	7	1.9	0.6	2.5
Scotland	5,051	5,938	1,445	1	12,435	54	2	12,437	6	2.9	1.4	4.2
Rest of the UK	13,711	19,540	4,374	32	37,657	56	175	37,832	20	2.7	1.8	4.5
Total	76,685	97,839	18,164	39	192,727	54	188	192,915	100	3.4	1.3	4.7

(1) Not within the scope of the independent auditors' report.
(2) As at 31 December 2024, £12.6 billion, 98.0%, of the private banking mortgage portfolio had flood risk data available (2023 – £13.0 billion, 98.1%). Of which, 5.4% were rated as high flood risk and 1.0% as very high flood risk (2023 – 5.74% high flood risk and 1.1% very high flood risk). 63% of the exposure is in the Greater London region.
(3) Flood risk is modelled by calculating an estimated loss for each flood source different types of flooding (fluvial, pluvial, tidal), annualised for each source and combined for a total flood score. Flood defences were considered where available. Flood scores were allocated per property based on the potential annualised loss (£) to a property dependent on the type, frequency and depth of flooding modelled across different return periods. The scoring ranged from 0 to 100, with 0 being lowest and 100 being the highest risk. A score of 61 and above was considered to be high risk and properties with a score of 81 and above were considered to be very high risk after flood mitigants were taken-into-account.

Credit risk – Banking activities continued

Personal portfolio (audited)

Retail Banking fixed rate mortgages by roll-off date (1)

The table below shows gross fixed rate mortgage lending for Retail Banking, by roll-off date.

	2024				2023			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Retail Banking mortgages - gross exposure (2)	£m	£m	£m	£m	£m	£m	£m	£m
Fixed rate roll-off								
<=1 year	**34,989**	**4,309**	**336**	**39,634**	30,867	3,670	295	34,832
>1<= 2 years	**44,146**	**5,080**	**418**	**49,644**	39,013	3,513	290	42,816
>2 years	**78,629**	**8,667**	**693**	**87,989**	87,402	7,461	590	95,453
Total	**157,764**	**18,056**	**1,447**	**177,267**	157,282	14,644	1,175	173,101

(1) Not within the scope of the independent auditors' report.
(2) Excluding the Metro Bank portfolio acquired during 2024.

Retail Banking mortgages by Energy Performance Certificate (EPC) rating (1)

The table below shows the energy efficiency of Retail Banking residential mortgages.

	2024			2023		
	Owner occupied	Buy-to-let	Total	Owner occupied	Buy-to-let	Total
EPC rating	£m	£m	£m	£m	£m	£m
A	**788**	**18**	**806**	547	13	560
B	**21,923**	**1,480**	**23,403**	21,566	1,458	23,024
C	**31,353**	**5,876**	**37,229**	29,764	5,712	35,476
D	**45,455**	**5,748**	**51,203**	46,924	6,056	52,980
E	**14,455**	**1,369**	**15,824**	16,027	1,557	17,584
F	**3,026**	**55**	**3,081**	3,360	62	3,422
G	**695**	**13**	**708**	736	16	752
Unclassified	**58,442**	**4,169**	**62,611**	55,243	3,874	59,117
Total	**176,137**	**18,728**	**194,865**	174,167	18,748	192,915

(1) Not within the scope of the independent auditors' report.
(2) As at 31 December 2024, £139.1 billion, 66.3%, of the total residential mortgages portfolio had Energy Performance Certificate (EPC) data available (2023 – £140.8 billion, 67.6%). Of which, 46.3% were rated as EPC A to C (2023 – 44.1%).

Credit risk – Banking activities continued

Commercial real estate (CRE)

CRE LTV distribution by stage (audited)

The table below shows CRE gross loans and related ECL by LTV band.

	Gross loans				ECL provisions				ECL provisions coverage			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
2024	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%
≤50%	**7,334**	**380**	**48**	**7,762**	**28**	**6**	**7**	**41**	**0.4**	**1.6**	**14.6**	**0.5**
>50% and ≤70%	**4,413**	**367**	**87**	**4,867**	**22**	**10**	**17**	**49**	**0.5**	**2.7**	**19.5**	**1.0**
>70% and ≤100%	**312**	**83**	**79**	**474**	**2**	**4**	**21**	**27**	**0.6**	**4.8**	**26.6**	**5.7**
>100%	**139**	**8**	**119**	**266**	**1**	**-**	**56**	**57**	**0.7**	**-**	**47.1**	**21.4**
Total with LTVs	**12,198**	**838**	**333**	**13,369**	**53**	**20**	**101**	**174**	**0.4**	**2.4**	**30.3**	**1.3**
Total portfolio average LTV	**46%**	**51%**	**102%**	**48%**								
Other Investment (1)	**2,132**	**348**	**41**	**2,521**	**6**	**6**	**15**	**27**	**0.3**	**1.7**	**36.6**	**1.1**
Investment	**14,330**	**1,186**	**374**	**15,890**	**59**	**26**	**116**	**201**	**0.4**	**2.2**	**31.0**	**1.3**
Development and other (2)	**1,861**	**331**	**59**	**2,251**	**11**	**4**	**30**	**45**	**0.6**	**1.2**	**50.8**	**2.0**
Total	**16,191**	**1,517**	**433**	**18,141**	**70**	**30**	**146**	**246**	**0.4**	**2.0**	**33.7**	**1.4**
2023												
≤50%	7,173	664	61	7,898	38	15	9	62	0.5	2.3	14.8	0.8
>50% and ≤70%	3,165	619	94	3,878	22	21	18	61	0.7	3.4	19.1	1.6
>70% and ≤100%	319	112	84	515	3	6	21	30	0.9	5.4	25.0	5.8
>100%	241	6	26	273	1	1	16	18	0.4	16.7	61.5	6.6
Total with LTVs	10,898	1,401	265	12,564	64	43	64	171	0.6	3.1	24.2	1.4
Total portfolio average LTV	47%	51%	72%	48%								
Other Investment (1)	2,189	390	45	2,624	10	7	19	36	0.5	1.8	42.2	1.4
Investment	13,087	1,791	310	15,188	74	50	83	207	0.6	2.8	26.8	1.4
Development and other (2)	1,911	249	64	2,224	12	8	29	49	0.6	3.2	45.3	2.2
Total	14,998	2,040	374	17,412	86	58	112	256	0.6	2.8	29.9	1.5

(1) Relates mainly to business banking and unsecured corporate lending.
(2) Relates to the development of commercial and residential properties, along with CRE activities that are not strictly investment or development. LTV is not a meaningful measure for this type of lending activity.

- The majority of the CRE portfolio was located and managed in the UK. Business appetite and strategy was aligned across NatWest Group. Lending appetite is subject to regular review.
- While the real estate investment market was subdued through much of 2024, the portfolio remained resilient and there was moderate growth.
- Credit quality remained stable with very limited instances of specific cases deteriorating. Challenges persist in parts of the office sub-sector, but NatWest Group remains comfortable with exposures held in this sub-sector, representing approximately 16% of the overall CRE book.

Credit risk – Banking activities continued

Flow statements (audited)

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

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

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
NatWest Group total	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2024	**504,345**	**709**	**40,294**	**976**	**5,621**	**1,960**	**550,260**	**3,645**
Currency translation and other adjustments	**(1,354)**	**-**	**(40)**	**(1)**	**158**	**204**	**(1,236)**	**203**
Transfers from Stage 1 to Stage 2	**(40,745)**	**(231)**	**40,745**	**231**	**-**	**-**	**-**	**-**
Transfers from Stage 2 to Stage 1	**27,808**	**552**	**(27,808)**	**(552)**	**-**	**-**	**-**	**-**
Transfers to Stage 3	**(247)**	**(5)**	**(3,489)**	**(269)**	**3,736**	**274**	**-**	**-**
Transfers from Stage 3	**296**	**19**	**761**	**37**	**(1,057)**	**(56)**	**-**	**-**
Net re-measurement of ECL on stage transfer		**(390)**		**657**		**344**		**611**
Changes in risk parameters		**(206)**		**(114)**		**302**		**(18)**
Other changes in net exposure	**25,749**	**155**	**(8,288)**	**(174)**	**(1,891)**	**(176)**	**15,570**	**(195)**
Other (P&L only items)		**3**		**(9)**		**(33)**		**(39)**
Income statement (releases)/charges		**(438)**		**360**		**437**		**359**
Transfers to disposal groups and fair value	**(296)**	**(5)**	**(9)**	**(3)**	**(13)**	**(10)**	**(318)**	**(18)**
Amounts written-off	**-**	**-**	**(1)**	**(1)**	**(653)**	**(653)**	**(654)**	**(654)**
Unwinding of discount		**-**		**-**		**(149)**		**(149)**
At 31 December 2024	**515,556**	**598**	**42,165**	**787**	**5,901**	**2,040**	**563,622**	**3,425**
Net carrying amount	**514,958**		**41,378**		**3,861**		**560,197**	
At 1 January 2023	507,539	632	48,482	1,043	5,231	1,759	561,252	3,434
2023 movements	(3,194)	77	(8,188)	(67)	390	201	(10,992)	211
At 31 December 2023	504,345	709	40,294	976	5,621	1,960	550,260	3,645
Net carrying amount	503,636		39,318		3,661		546,615	

Credit risk – Banking activities continued

Flow statements (audited)

Retail Banking - mortgages	Stage 1 Financial assets £m	Stage 1 ECL £m	Stage 2 Financial assets £m	Stage 2 ECL £m	Stage 3 Financial assets £m	Stage 3 ECL £m	Total Financial assets £m	Total ECL £m
At 1 January 2024	**174,038**	**87**	**17,827**	**60**	**2,068**	**250**	**193,933**	**397**
Currency translation and other adjustments	**-**	**(1)**	**-**	**1**	**109**	**110**	**109**	**110**
Transfers from Stage 1 to Stage 2	**(19,074)**	**(20)**	**19,074**	**20**	**-**	**-**	**-**	**-**
Transfers from Stage 2 to Stage 1	**12,454**	**24**	**(12,454)**	**(24)**	**-**	**-**	**-**	**-**
Transfers to Stage 3	**(52)**	**-**	**(1,079)**	**(8)**	**1,131**	**8**	**-**	**-**
Transfers from Stage 3	**48**	**1**	**392**	**7**	**(440)**	**(8)**	**-**	**-**
Net re-measurement of ECL on stage transfer		**(13)**		**26**		**6**		**19**
Changes in risk parameters		**3**		**(15)**		**96**		**84**
Other changes in net exposure	**3,919**	**(5)**	**(2,768)**	**(7)**	**(550)**	**(75)**	**601**	**(87)**
Other (P&L only items)		**-**		**(1)**		**(10)**		**(11)**
Income statement (releases)/charges		**(15)**		**3**		**17**		**5**
Amounts written-off	**-**	**-**	**-**	**-**	**(15)**	**(15)**	**(15)**	**(15)**
Unwinding of discount		**-**		**-**		**(67)**		**(67)**
At 31 December 2024	**171,333**	**76**	**20,992**	**60**	**2,303**	**305**	**194,628**	**441**
Net carrying amount	**171,257**		**20,932**		**1,998**		**194,187**	
At 1 January 2023	165,264	79	18,831	61	1,762	215	185,857	355
2023 movements	8,774	8	(1,004)	(1)	306	35	8,076	42
At 31 December 2023	174,038	87	17,827	60	2,068	250	193,933	397
Net carrying amount	173,951		17,767		1,818		193,536	

- ECL coverage for mortgages remained stable overall during 2024, with growth in Stage 3 ECL partly offset by a reduction in good book ECL, primarily driven by the reduction in economic uncertainty post model adjustment levels. PDs remained broadly flat with the effect of the modest increase in arrears levels being offset by the impact of improved economics since 2023 and stable portfolio performance overall.
- The decrease in Stage 1 ECL was also driven by the cost of living post model adjustment reduction. Refer to the Governance and post model adjustments section for further details.
- The Stage 3 inflows remained broadly stable, albeit with signs of an upward drift in default rates, reflecting slightly poorer arrears performance on mortgages recently rolled-off onto higher product rates. The increase in Stage 3 ECL primarily reflected increases in ECL for post-default interest.
- There were net flows into Stage 2 from Stage 1 in line with a modest upward trend in arrears.
- The relatively small ECL cost for net re-measurement on transfer into Stage 3 included the effect of risk targeted ECL adjustments, when previously in the good book. Refer to the Governance and post model adjustments section for further details.
- Write-off occurs once the repossessed property has been sold and there is a residual shortfall balance remaining outstanding. This would typically be within five years from default but can be longer.

Credit risk – Banking activities continued

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Retail Banking - credit cards	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2024	3,475	70	2,046	204	146	89	5,667	363
Currency translation and other adjustments	-	(1)	-	1	4	3	4	3
Transfers from Stage 1 to Stage 2	(1,895)	(42)	1,895	42	-	-	-	-
Transfers from Stage 2 to Stage 1	1,300	94	(1,300)	(94)	-	-	-	-
Transfers to Stage 3	(24)	(1)	(158)	(58)	182	59	-	-
Transfers from Stage 3	3	1	9	3	(12)	(4)	-	-
Net re-measurement of ECL on stage transfer		(58)		167		46		155
Changes in risk parameters		(3)		(13)		37		21
Other changes in net exposure	1,664	16	(458)	(66)	(56)	(2)	1,150	(52)
Other (P&L only items)		-		-		(9)		(9)
Income statement (releases)/charges		(45)		88		72		115
Amounts written-off	-	-	-	-	(102)	(102)	(102)	(102)
Unwinding of discount		-		-		(9)		(9)
At 31 December 2024	4,523	76	2,034	186	162	117	6,719	379
Net carrying amount	4,447		1,848		45		6,340	
At 1 January 2023	3,062	61	1,098	120	113	71	4,273	252
2023 movements	413	9	948	84	33	18	1,394	111
At 31 December 2023	3,475	70	2,046	204	146	89	5,667	363
Net carrying amount	3,405		1,842		57		5,304	

- Overall ECL for cards remained broadly in line with 2023, with portfolio growth mitigated by stable portfolio performance, lower PD levels and a reduction in economic uncertainty post model adjustment levels.
- Credit card balances continued to grow during the year, in line with industry trends in the UK, reflecting strong customer demand, while sustaining robust risk appetite.
- While portfolio performance remained stable, a net flow into Stage 2 from Stage 1 was observed, with the typical maturation of lending after a period of strong growth in recent years. The staging ECL uplift was offset by modelling updates in PDs and LGDs.
- Flow rates into Stage 3 showed modest improvement in 2024 in comparison to 2023, in line with broader portfolio performance.
- Charge-off (analogous to partial write-off) typically occurs after 12 missed payments.

Credit risk – Banking activities continued

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Retail Banking - other personal unsecured	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2024	5,240	149	1,657	238	963	758	7,860	1,145
Currency translation and other adjustments	-	1	1	-	20	21	21	22
Transfers from Stage 1 to Stage 2	(2,156)	(103)	2,156	103	-	-	-	-
Transfers from Stage 2 to Stage 1	1,672	229	(1,672)	(229)	-	-	-	-
Transfers to Stage 3	(69)	(3)	(304)	(126)	373	129	-	-
Transfers from Stage 3	9	3	23	9	(32)	(12)	-	-
Net re-measurement of ECL on stage transfer		(161)		269		29		137
Changes in risk parameters		(69)		(40)		107		(2)
Other changes in net exposure	909	81	(395)	(41)	(179)	(45)	335	(5)
Other (P&L only items)		1		(1)		32		32
Income statement (releases)/charges		(148)		187		123		162
Amounts written-off	-	-	(1)	(1)	(312)	(312)	(313)	(313)
Unwinding of discount		-		-		(34)		(34)
At 31 December 2024	5,605	127	1,465	182	833	641	7,903	950
Net carrying amount	5,478		1,283		192		6,953	
At 1 January 2023	4,784	111	2,028	269	779	631	7,591	1,011
2023 movements	456	38	(371)	(31)	184	127	269	134
At 31 December 2023	5,240	149	1,657	238	963	758	7,860	1,145
Net carrying amount	5,091		1,419		205		6,715	

- Total ECL decreased, mainly in Stage 3, due to the reduction of balances from debt sale activity on Personal unsecured portfolios.
- Stable portfolio performance was observed during the year. PD modelling updates coupled with LGD modelling updates were reflected in the performing book ECL, with coverage levels showing a modest reduction since the prior period.
- Flow rates into Stage 3 reduced for the year, in line with broader portfolio performance.
- Unsecured retail performing balances grew steadily in 2024, largely in line with industry trends.
- Write-off occurs once recovery activity with the customer has been concluded or there are no further recoveries expected, but no later than six years after default.

Credit risk – Banking activities continued

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Commercial & Institutional total	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2024	**176,302**	**356**	**17,029**	**447**	**2,161**	**819**	**195,492**	**1,622**
Currency translation and other adjustments	**(826)**	**-**	**(41)**	**(1)**	**22**	**65**	**(845)**	**64**
Transfers from Stage 1 to Stage 2	**(16,117)**	**(62)**	**16,117**	**62**	**-**	**-**	**-**	**-**
Transfers from Stage 2 to Stage 1	**11,022**	**190**	**(11,022)**	**(190)**	**-**	**-**	**-**	**-**
Transfers to Stage 3	**(90)**	**(1)**	**(1,745)**	**(76)**	**1,835**	**77**	**-**	**-**
Transfers from Stage 3	**194**	**14**	**315**	**17**	**(509)**	**(31)**	**-**	**-**
Net re-measurement of ECL on stage transfer		**(148)**		**184**		**263**		**299**
Changes in risk parameters		**(118)**		**(39)**		**61**		**(96)**
Other changes in net exposure	**13,282**	**58**	**(4,484)**	**(58)**	**(1,011)**	**(53)**	**7,787**	**(53)**
Other (P&L only items)		**3**		**(8)**		**(47)**		**(52)**
Income statement (releases)/charges		**(205)**		**79**		**224**		**98**
Amounts written-off	**-**	**-**	**-**	**-**	**(223)**	**(223)**	**(223)**	**(223)**
Unwinding of discount		**-**		**-**		**(37)**		**(37)**
At 31 December 2024	**183,767**	**289**	**16,169**	**346**	**2,275**	**941**	**202,211**	**1,576**
Net carrying amount	**183,478**		**15,823**		**1,334**		**200,635**	
At 1 January 2023	160,352	342	24,711	534	2,198	747	187,261	1,623
2023 movements	15,950	14	(7,682)	(87)	(37)	72	8,231	(1)
At 31 December 2023	176,302	356	17,029	447	2,161	819	195,492	1,622
Net carrying amount	175,946		16,582		1,342		193,870	

– The growth in exposures was mainly driven by non-bank financial institutions.
– Stage 1 and Stage 2 ECL reduced, reflecting a combination of stable portfolio performance, reductions in post model adjustments and net improvements in economic scenarios.
– Stage 3 ECL increased due to a small number of large counterparties, but in total, the number of individual defaults remained low. Flows into Stage 3 were consistent with 2023 and considerably below historical trends.
– Write-offs levels continue to remain below historical trends.
– Overall, impairment charges were low, with Stage 3 individual charges offset by performing book releases.

Credit risk – Banking activities continued

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Commercial & Institutional - corporate	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2024	61,402	226	12,275	344	1,454	602	75,131	1,172
Currency translation and other adjustments	(127)	-	(34)	(1)	22	53	(139)	52
Inter-group transfers	98	1	38	3	3	-	139	4
Transfers from Stage 1 to Stage 2	(10,835)	(47)	10,835	47	-	-	-	-
Transfers from Stage 2 to Stage 1	7,725	144	(7,725)	(144)	-	-	-	-
Transfers to Stage 3	(77)	(1)	(1,358)	(55)	1,435	56	-	-
Transfers from Stage 3	154	11	262	12	(416)	(23)	-	-
Net re-measurement of ECL on stage transfer		(112)		138		186		212
Changes in risk parameters		(74)		(29)		51		(52)
Other changes in net exposure	4,235	27	(2,843)	(42)	(737)	(41)	655	(56)
Other (P&L only items)		3		(7)		(43)		(47)
Income statement (releases)/charges		(156)		60		153		57
Amounts written-off	-	-	-	-	(199)	(199)	(199)	(199)
Unwinding of discount		-		-		(26)		(26)
At 31 December 2024	62,575	175	11,450	273	1,562	659	75,587	1,107
Net carrying amount	62,400		11,177		903		74,480	

- There was modest exposure growth, with increased new lending largely offset by repayments.
- Stage 1 and Stage 2 ECL reduced, reflecting a combination of stable portfolio performance, reductions in post model adjustments and net improvements in economic scenarios.
- Stage 3 ECL increased due to charges on a small number of large counterparties, partially offset by write-offs.
- Overall, impairment charges were low, with Stage 3 individual charges offset by performing book releases.

Credit risk – Banking activities continued

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Commercial & Institutional - property	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2024	26,040	94	3,155	89	606	195	29,801	378
Currency translation and other adjustments	(10)	1	(3)	-	1	5	(12)	6
Inter-group transfers	(45)	(1)	(43)	(2)	(3)	-	(91)	(3)
Transfers from Stage 1 to Stage 2	(3,143)	(13)	3,143	13	-	-	-	-
Transfers from Stage 2 to Stage 1	2,291	37	(2,291)	(37)	-	-	-	-
Transfers to Stage 3	(9)	-	(304)	(16)	313	16	-	-
Transfers from Stage 3	34	3	49	4	(83)	(7)	-	-
Net re-measurement of ECL on stage transfer		(28)		37		44		53
Changes in risk parameters		(35)		(13)		10		(38)
Other changes in net exposure	2,310	19	(726)	(14)	(223)	(9)	1,361	(4)
Other (P&L only items)		-		-		(1)		(1)
Income statement (releases)/charges		(44)		10		44		10
Amounts written-off	-	-	-	-	(21)	(21)	(21)	(21)
Unwinding of discount		-		-		(8)		(8)
At 31 December 2024	27,468	77	2,980	61	590	225	31,038	363
Net carrying amount	27,391		2,919		365		30,675	

- Stage 1 and Stage 2 ECL reduced, reflecting a combination of stable portfolio performance, reductions in post model adjustments and net improvements in economic scenarios.
- Stage 3 ECL increased due to charges on a small number of large counterparties, partially offset by write-offs.
- Overall, impairment charges were low, with Stage 3 individual charges offset by performing book releases.

Credit risk – Banking activities continued

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Commercial & Institutional - other	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2024	88,860	36	1,599	14	101	22	90,560	72
Currency translation and other adjustments	(689)	-	(5)	-	(1)	8	(695)	8
Inter-group transfers	(53)	-	4	-	-	-	(49)	-
Transfers from Stage 1 to Stage 2	(2,140)	(3)	2,140	3	-	-	-	-
Transfers from Stage 2 to Stage 1	1,006	9	(1,006)	(9)	-	-	-	-
Transfers to Stage 3	(4)	-	(83)	(6)	87	6	-	-
Transfers from Stage 3	6	-	4	1	(10)	(1)	-	-
Net re-measurement of ECL on stage transfer		(7)		9		33		35
Changes in risk parameters		(10)		3		1		(6)
Other changes in net exposure	6,738	12	(914)	(3)	(52)	(4)	5,772	5
Other (P&L only items)		-		-		(3)		(3)
Income statement (releases)/charges		(5)		9		27		31
Amounts written-off	-	-	-	-	(2)	(2)	(2)	(2)
Unwinding of discount		-		-		(3)		(3)
At 31 December 2024	93,724	37	1,739	12	123	57	95,586	106
Net carrying amount	93,687		1,727		66		95,480	

- The growth in exposures was mainly driven by non-bank financial institutions.
- Stage 3 ECL increased due to charges on a small number of large counterparties.

Credit risk – Banking activities continued

Stage 2 decomposition by a significant increase in credit risk trigger

	UK mortgages		Credit cards		Other		Total	
2024	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Personal trigger (1)								
PD movement	**14,480**	**68.8**	**1,425**	**72.9**	**809**	**49.9**	**16,714**	**67.8**
PD persistence	**3,951**	**18.8**	**414**	**21.2**	**388**	**23.9**	**4,753**	**19.3**
Adverse credit bureau recorded with credit reference agency	**936**	**4.4**	**71**	**3.6**	**119**	**7.3**	**1,126**	**4.6**
Forbearance support provided	**189**	**0.9**	**1**	**0.1**	**9**	**0.6**	**199**	**0.8**
Customers in collections	**169**	**0.8**	**3**	**0.2**	**2**	**0.1**	**174**	**0.7**
Collective SICR and other reasons (2)	**1,248**	**5.9**	**39**	**2.0**	**290**	**17.9**	**1,577**	**6.4**
Days past due >30	**88**	**0.4**	**-**	**-**	**5**	**0.3**	**93**	**0.4**
	21,061	**100.0**	**1,953**	**100.0**	**1,622**	**100.0**	**24,636**	**100.0**
2023								
Personal trigger (1)								
PD movement	12,969	72.5	1,469	72.7	866	52.9	15,304	71.1
PD persistence	2,317	13.0	481	23.8	374	22.9	3,172	14.7
Adverse credit bureau recorded with credit reference agency	1,047	5.9	49	2.4	99	6.1	1,195	5.6
Forbearance support provided	137	0.8	1	-	11	0.7	149	0.7
Customers in collections	178	1.0	2	0.1	8	0.5	188	0.9
Collective SICR and other reasons (2)	1,087	6.1	20	1.0	266	16.3	1,373	6.4
Days past due >30	119	0.7	-	-	9	0.6	128	0.6
	17,854	100.0	2,022	100.0	1,633	100.0	21,509	100.0

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

- The level of PD driven deterioration increased across the mortgage portfolio throughout 2024, reflecting modest increases in the early arrears level. However, the year end economic scenarios update resulted in a reduction in PD levels and a further build up in PD persistence levels.
- Modelling updates in the unsecured portfolios at both Q1 and year end, resulted in reduced in-lifetime PDs, driving a segment of lower risk cases out of PD deterioration.
- Higher risk mortgage customers who utilised the new Mortgage Charter measures continue to be collectively migrated into Stage 2, approximately £0.9 billion of exposures, and were captured in the collective SICR and other reasons category.
- Accounts that were less than 30 days past due continued to represent the vast majority of the Stage 2 population.

Credit risk – Banking activities continued

Stage 2 decomposition by a significant increase in credit risk trigger

	Corporate and Other (3)		Financial institutions		Sovereign		Total	
2024	£m	%	£m	%	£m	%	£m	%
Non-personal trigger (1)								
PD movement	**11,800**	**81.6**	**971**	**78.2**	**-**	**-**	**12,771**	**80.6**
PD persistence	**310**	**2.1**	**2**	**0.2**	**-**	**-**	**312**	**2.0**
Heightened Monitoring and Risk of Credit Loss	**1,599**	**11.1**	**83**	**6.7**	**132**	**99.2**	**1,814**	**11.5**
Forbearance support provided	**229**	**1.6**	**-**	**-**	**-**	**-**	**229**	**1.4**
Customers in collections	**34**	**0.2**	**-**	**-**	**-**	**-**	**34**	**0.2**
Collective SICR and other reasons (2)	**396**	**2.7**	**172**	**13.9**	**1**	**0.8**	**569**	**3.6**
Days past due >30	**96**	**0.7**	**13**	**1.0**	**-**	**-**	**109**	**0.7**
	14,464	**100.0**	**1,241**	**100.0**	**133**	**100.0**	**15,838**	**100.0**
2023								
Non-personal trigger (1)								
PD movement	9,822	63.7	760	78.7	-	-	10,582	64.6
PD persistence	1,070	7.0	13	1.3	-	-	1,083	6.6
Heightened Monitoring and Risk of Credit Loss	3,193	20.7	120	12.4	-	-	3,313	20.2
Forbearance support provided	422	2.7	-	-	-	-	422	2.6
Customers in collections	30	0.2	-	-	-	-	30	0.2
Collective SICR and other reasons (2)	527	3.4	72	7.5	1	100.0	600	3.7
Days past due >30	351	2.3	1	0.1	-	-	352	2.1
	15,415	100.0	966	100.0	1	100.0	16,382	100.0

(1) Includes cases where a PD assessment cannot be made and accounts where the PD has deteriorated beyond a prescribed backstop threshold aligned to risk management practices.
(2) The table is prepared on a hierarchical basis from top to bottom, for example, accounts with PD deterioration may also trigger backstop(s) but are only reported under PD deterioration.
(3) Previously published sectors for the Non-personal portfolio have been re-presented to reflect internal sector reporting. Property is now included in corporate and other.

- PD deterioration continued to be the primary trigger of migration of exposures from Stage 1 into Stage 2. There was an increase in cases triggering PD deterioration partially due to additional sectors included in economic uncertainty post model adjustments.
- Heightened Monitoring and Risk of Credit Loss remained an important backstop indicator of a SICR. The exposures captured by Heighted Monitoring or Risk of Credit Loss decreased over the period, due to the increase in PD deterioration.
- PD persistence related to the SME Retail portfolio only, with reductions due to some stable portfolio performance and net improvements in economic scenarios and weightings.

Stage 3 vintage analysis

The table below shows estimated vintage analysis of the material Stage 3 portfolios.

	2024		2023	
	Retail Banking mortgages (1)	Non-personal	Retail Banking mortgages (1)	Non-personal
Stage 3 loans (£bn)	2.3	2.4	2.0	2.2
Vintage (time in default):				
<1 year	38%	34%	45%	40%
1-3 years	41%	45%	32%	35%
3-5 years	8%	11%	9%	12%
>5 years	13%	10%	14%	13%
	100%	100%	100%	100%

(1) Retail Banking excludes a non-material amount of lending held on relatively small legacy portfolios.

- For Retail Banking mortgages, the proportion of the Stage 3 defaulted population which have been in default for over five years reflected NatWest Group's support for customers in financial difficulty. When customers continue to engage constructively with NatWest Group, making regular payments, NatWest Group continues to support them.
- For Non-Personal, the Stage 3 defaulted population which have been in default for over five years, typically relate to cases where recovery processes are yet to conclude.

Credit risk – Banking activities continued

Asset quality (audited)

The table below shows asset quality bands of gross loans and ECL, by stage, for the Personal portfolio.

	Gross loans				ECL provisions				ECL provisions coverage			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
2024	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%
Mortgages												
AQ1-AQ4	104,793	8,416	-	113,209	29	16	-	45	0.0	0.2	-	0.0
AQ5-AQ8	81,263	11,683	-	92,946	48	38	-	86	0.1	0.3	-	0.1
AQ9	194	962	-	1,156	-	6	-	6	-	0.6	-	0.5
AQ10	-	-	2,535	2,535	-	-	325	325	-	-	12.8	12.8
	186,250	21,061	2,535	209,846	77	60	325	462	0.0	0.3	12.8	0.2
Credit cards												
AQ1-AQ4	128	-	-	128	1	-	-	1	0.8	-	-	0.8
AQ5-AQ8	4,650	1,866	-	6,516	75	169	-	244	1.6	9.1	-	3.7
AQ9	23	87	-	110	1	17	-	18	4.4	19.5	-	16.4
AQ10	-	-	176	176	-	-	118	118	-	-	67.1	67.1
	4,801	1,953	176	6,930	77	186	118	381	1.6	9.5	67.1	5.5
Other personal												
AQ1-AQ4	691	127	-	818	6	14	-	20	0.9	11.0	-	2.4
AQ5-AQ8	6,521	1,359	-	7,880	120	134	-	254	1.8	9.9	-	3.2
AQ9	55	136	-	191	4	35	-	39	7.3	25.7	-	20.4
AQ10	-	-	860	860	-	-	656	656	-	-	76.3	76.3
	7,267	1,622	860	9,749	130	183	656	969	1.8	11.3	76.3	9.9
Total												
AQ1-AQ4	105,612	8,543	-	114,155	36	30	-	66	0.0	0.4	-	0.1
AQ5-AQ8	92,434	14,908	-	107,342	243	341	-	584	0.3	2.3	-	0.5
AQ9	272	1,185	-	1,457	5	58	-	63	1.8	4.9	-	4.3
AQ10	-	-	3,571	3,571	-	-	1,099	1,099	-	-	30.8	30.8
	198,318	24,636	3,571	226,525	284	429	1,099	1,812	0.1	1.7	30.8	0.8

Credit risk – Banking activities continued

Asset quality (audited)

	Gross loans				ECL provisions				ECL provisions coverage			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
2023	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%
Mortgages												
AQ1-AQ4	110,694	7,572	-	118,266	51	20	-	71	0.1	0.3	-	0.1
AQ5-AQ8	77,290	9,578	-	86,868	37	37	-	74	0.1	0.4	-	0.1
AQ9	156	704	-	860	-	4	-	4	-	0.6	-	0.5
AQ10	-	-	2,281	2,281	-	-	271	271	-	-	11.9	11.9
	188,140	17,854	2,281	208,275	88	61	271	420	0.1	0.3	11.9	0.2
Credit cards												
AQ1-AQ4	124	-	-	124	1.0	-	-	1.0	0.8	-	-	0.8
AQ5-AQ8	3,612	1,965	-	5,577	75	193	-	268	2.1	9.8	-	4.8
AQ9	6	57	-	63	-	14	-	14	-	24.6	-	22.2
AQ10	-	-	140	140	-	-	93	93	-	-	66.4	66.4
	3,742	2,022	140	5,904	76	207	93	376	2.0	10.2	66.4	6.4
Other personal												
AQ1-AQ4	764	150	-	914	11	23	-	34	1.4	15.3	-	3.7
AQ5-AQ8	6,178	1,374	-	7,552	138	180	-	318	2.2	13.1	-	4.2
AQ9	41	109	-	150	3	35	-	38	7.3	32.1	-	25.3
AQ10	-	-	979	979	-	-	778	778	-	-	79.5	79.5
	6,983	1,633	979	9,595	152	238	778	1,168	2.2	14.6	79.5	12.2
Total												
AQ1-AQ4	111,582	7,722	-	119,304	63	43	-	106	0.1	0.6	-	0.1
AQ5-AQ8	87,080	12,917	-	99,997	250	410	-	660	0.3	3.2	-	0.7
AQ9	203	870	-	1,073	3	53	-	56	1.5	6.1	-	5.2
AQ10	-	-	3,400	3,400	-	-	1,142	1,142	-	-	33.6	33.6
	198,865	21,509	3,400	223,774	316	506	1,142	1,964	0.2	2.4	33.6	0.9

- In the Personal portfolio, the majority of exposures were in AQ4 and AQ5 within mortgages. In line with the stable mortgage portfolio performance overall, the distribution of lending across AQ bands remained largely consistent with the prior year.
- Debt sale activity during the year reduced the proportion of AQ10 in Other Personal lending.

Credit risk – Banking activities continued

Asset quality (audited)

The table below shows asset quality bands of gross loans and ECL, by stage, for the Non-Personal portfolio.

	Gross loans				ECL provisions				ECL provisions coverage			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
2024	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%
Corporate and other (1)												
AQ1-AQ4	41,509	2,409	-	43,918	32	19	-	51	0.1	0.8	-	0.1
AQ5-AQ8	53,448	11,783	-	65,231	232	306	-	538	0.4	2.6	-	0.8
AQ9	34	272	-	306	-	19	-	19	-	7.0	-	6.2
AQ10	-	-	2,279	2,279	-	-	896	896	-	-	39.3	39.3
	94,991	14,464	2,279	111,734	264	344	896	1,504	0.3	2.4	39.3	1.4
Financial institutions												
AQ1-AQ4	64,845	233	-	65,078	21	2	-	23	0.0	0.9	-	0.0
AQ5-AQ8	4,176	996	-	5,172	17	9	-	26	0.4	0.9	-	0.5
AQ9	-	12	-	12	-	1	-	1	-	8.3	-	8.3
AQ10	-	-	59	59	-	-	40	40	-	-	67.8	67.8
	69,021	1,241	59	70,321	38	12	40	90	0.1	1.0	67.8	0.1
Sovereign												
AQ1-AQ4	1,364	1	-	1,365	12	1	-	13	0.9	100.0	-	1.0
AQ5-AQ8	127	-	-	127	-	-	-	-	-	-	-	-
AQ9	-	132	-	132	-	1	-	1	-	0.8	-	0.8
AQ10	-	-	21	21	-	-	5	5	-	-	23.8	23.8
	1,491	133	21	1,645	12	2	5	19	0.8	1.5	23.8	1.2
Total												
AQ1-AQ4	107,718	2,643	-	110,361	65	22	-	87	0.1	0.8	-	0.1
AQ5-AQ8	57,751	12,779	-	70,530	249	315	-	564	0.4	2.5	-	0.8
AQ9	34	416	-	450	-	21	-	21	-	5.1	-	4.7
AQ10	-	-	2,359	2,359	-	-	941	941	-	-	39.9	39.9
	165,503	15,838	2,359	183,700	314	358	941	1,613	0.2	2.3	39.9	0.9

Credit risk – Banking activities continued

Asset quality (audited)

	Gross loans				ECL provisions				ECL provisions coverage			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
2023	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%
Corporate and other (1)												
AQ1-AQ4	40,875	1,342	-	42,217	43	18	-	61	0.1	1.3	-	0.1
AQ5-AQ8	50,084	13,734	-	63,818	293	411	-	704	0.6	3.0	-	1.1
AQ9	47	339	-	386	-	25	-	25	-	7.4	-	6.5
AQ10	-	-	2,125	2,125	-	-	809	809	-	-	38.1	38.1
	91,006	15,415	2,125	108,546	336	454	809	1,599	0.4	2.9	38.1	1.5
Financial institutions												
AQ1-AQ4	52,702	665	-	53,367	28	6	-	34	0.1	0.9	-	0.1
AQ5-AQ8	3,402	284	-	3,686	16	9	-	25	0.5	3.2	-	0.7
AQ9	1	17	-	18	-	-	-	-	-	-	-	-
AQ10	-	-	16	16	-	-	7	7	-	-	43.8	43.8
	56,105	966	16	57,087	44	15	7	66	0.1	1.6	43.8	0.1
Sovereign												
AQ1-AQ4	2,487	1	-	2,488	13	1	-	14	0.5	100	-	0.6
AQ5-AQ8	123	-	-	123	-	-	-	-	-	-	-	-
AQ9	-	-	-	-	-	-	-	-	-	-	-	-
AQ10	-	-	22	22	-	-	2	2	-	-	9.1	9.1
	2,610	1	22	2,633	13	1	2	16	0.5	100.0	9.1	0.6
Total												
AQ1-AQ4	96,064	2,008	-	98,072	84	25	-	109	0.1	1.3	-	0.1
AQ5-AQ8	53,609	14,018	-	67,627	309	420	-	729	0.6	3.0	-	1.1
AQ9	48	356	-	404	-	25	-	25	-	7.0	-	6.2
AQ10	-	-	2,163	2,163	-	-	818	818	-	-	37.8	37.8
	149,721	16,382	2,163	168,266	393	470	818	1,681	0.3	2.9	37.8	1.0

(1) Previously published sectors for the Non-personal portfolio have been re-presented to reflect internal sector reporting. Property is now included in corporate and other.

- Asset quality remained broadly stable, with a slightly higher proportion of exposures within AQ1-AQ4. Credit grades are reassessed for all customers at least annually, when a new request is made, if a material credit event impacting that customer has occurred or when a scheduled review is performed.

Credit risk – Trading activities

This section details the credit risk profile of NatWest Group's trading activities.

Securities financing transactions and collateral (audited)

The table below shows securities financing transactions in Commercial & Institutional and Central items & other. Balance sheet captions include balances held at all classifications under IFRS.

	Reverse repos			Repos		
2024	Total £m	Of which: can be offset £m	Outside netting arrangements £m	Total £m	Of which: can be offset £m	Outside netting arrangements £m
Gross	**87,901**	**87,861**	**40**	**68,024**	**67,321**	**703**
IFRS offset	**(23,883)**	**(23,883)**	**-**	**(23,883)**	**(23,883)**	**-**
Carrying value	**64,018**	**63,978**	**40**	**44,141**	**43,438**	**703**
Master netting arrangements	**(1,549)**	**(1,549)**	**-**	**(1,549)**	**(1,549)**	**-**
Securities collateral	**(62,217)**	**(62,217)**	**-**	**(41,889)**	**(41,889)**	**-**
Potential for offset not recognised under IFRS	**(63,766)**	**(63,766)**	**-**	**(43,438)**	**(43,438)**	**-**
Net	**252**	**212**	**40**	**703**	**-**	**703**
2023						
Gross	77,508	77,050	458	66,767	66,047	720
IFRS offset	(25,903)	(25,903)	-	(25,903)	(25,903)	-
Carrying value	51,605	51,147	458	40,864	40,144	720
Master netting arrangements	(669)	(669)	-	(669)	(669)	-
Securities collateral	(50,287)	(50,287)	-	(39,475)	(39,475)	-
Potential for offset not recognised under IFRS	(50,956)	(50,956)	-	(40,144)	(40,144)	-
Net	649	191	458	720	-	720

Credit risk – Trading activities continued

Derivatives (audited)

The table below shows derivatives by type of contract. The master netting agreements and collateral shown do not result in a net presentation on the balance sheet under IFRS. A significant proportion of the derivatives relate to trading activities in Commercial & Institutional. The table also includes hedging derivatives in Central items & other.

	2024							2023		
	Notional									
	GBP	USD	EUR	Other	Total	Assets	Liabilities	Notional	Assets	Liabilities
	£bn	£bn	£bn	£bn	£bn	£m	£m	£bn	£m	£m
Gross exposure						97,152	93,109		99,501	96,264
IFRS offset						(18,746)	(21,027)		(20,597)	(23,869)
Carrying value	3,551	3,425	5,500	1,152	13,628	78,406	72,082	13,403	78,904	72,395
Of which:										
Interest rate (1)	3,228	1,973	4,847	285	10,333	37,499	31,532	10,268	44,563	38,483
Exchange rate	321	1,446	645	867	3,279	40,797	40,306	3,120	34,161	33,586
Credit	-	6	8	-	14	110	244	15	180	326
Equity and commodity	2	-	-	-	2	-	-	-	-	-
Carrying value					13,628	78,406	72,082	13,403	78,904	72,395
Counterparty mark-to-market netting						(61,883)	(61,883)		(60,355)	(60,355)
Cash collateral						(10,005)	(5,801)		(12,284)	(6,788)
Securities collateral						(4,072)	(896)		(3,408)	(1,664)
Net exposure						2,446	3,502		2,857	3,588
Banks (2)						214	345		335	555
Other financial institutions (3)						1,429	1,456		1,422	1,304
Corporate (4)						769	1,669		1,063	1,690
Government (5)						34	32		37	39
Net exposure						2,446	3,502		2,857	3,588
UK						1,061	1,774		1,283	1,912
Europe						875	978		800	1,209
US						443	604		607	381
RoW						67	146		167	86
Net exposure						2,446	3,502		2,857	3,588
Asset quality of uncollateralised derivative assets										
AQ1-AQ4						2,049			2,382	
AQ5-AQ8						394			471	
AQ9-AQ10						3			4	
Net exposure						2,446			2,857	

(1) The notional amount of interest rate derivatives includes £7,321 billion (2023 – £7,280 billion) in respect of contracts cleared through central clearing counterparties.
(2) Transactions with certain counterparties with whom NatWest Group has netting arrangements but collateral is not posted on a daily basis; certain transactions with specific terms that may not fall within netting and collateral arrangements; derivative positions in certain jurisdictions where the collateral agreements are not deemed to be legally enforceable.
(3) Includes transactions with securitisation vehicles and funds where collateral posting is contingent on NatWest Group's external rating.
(4) Mainly large corporates with whom NatWest Group may have netting arrangements in place with no collateral posting.
(5) Sovereigns and supranational entities with no collateral arrangements, collateral arrangements that are not considered enforceable, or one-way collateral agreements in their favour.

Credit risk – Trading activities continued

Debt securities (audited)

The table below shows debt securities held at mandatory fair value through profit or loss by issuer as well as ratings based on the lowest of Standard & Poor's, Moody's and Fitch. Refer to Note 12 on Trading assets and liabilities for details on short positions.

	Central and local government					
	UK	US	Other	Financial institutions	Corporate	Total
2024	£m	£m	£m	£m	£m	£m
AAA	-	-	1,335	1,368	-	2,703
AA to AA+	-	3,734	74	569	2	4,379
A to AA-	2,077	-	1,266	381	519	4,243
BBB- to A-	-	-	831	562	885	2,278
Non-investment grade	-	-	-	108	167	275
Total	2,077	3,734	3,506	2,988	1,573	13,878
2023						
AAA	-	-	1,333	1,132	-	2,465
AA to AA+	-	2,600	19	762	4	3,385
A to AA-	2,729	-	1,017	251	283	4,280
BBB- to A-	-	-	693	295	489	1,477
Non-investment grade	-	-	-	198	149	347
Total	2,729	2,600	3,062	2,638	925	11,954

Cross border exposure

Cross border exposures comprise both banking and trading activities, including reverse repurchase agreements. Exposures comprise loans and advances, including finance leases and instalment credit receivables, and other monetary assets, such as debt securities. The geographical breakdown is based on the country of domicile of the borrower or guarantor of ultimate risk. Cross border exposures include non-local currency claims of overseas offices on local residents but exclude exposures to local residents in local currencies. The table shows cross border exposures greater than 0.5% of NatWest Group's total assets.

2024	Government £m	Banks £m	Other £m	Total £m	Short positions £m	Net of short positions £m
Western Europe	**8,581**	**11,669**	**29,891**	**50,141**	**5,889**	**44,252**
Of which: France	***2,347***	***2,543***	***11,161***	***16,051***	***1,491***	***14,560***
Of which: Germany	***1,149***	***5,937***	***702***	***7,788***	***1,957***	***5,831***
Of which : Luxembourg	***61***	***412***	***7,940***	***8,413***	***10***	***8,403***
Of which : Ireland	***162***	***49***	***3,306***	***3,517***	***85***	***3,432***
United States	**5,246**	**3,307**	**21,576**	**30,129**	**1,767**	**28,362**
Jersey	**-**	**-**	**5,030**	**5,030**	**-**	**5,030**
Canada	**1,664**	**1,555**	**2,308**	**5,527**	**26**	**5,501**
Other institutions (1)	**4,520**	**-**	**-**	**4,520**	**94**	**4,426**

2023						
Western Europe	7,830	10,109	26,508	44,447	4,655	39,792
Of which: France	*2,229*	*2,105*	*7,839*	*12,173*	*1,183*	*10,990*
Germany	*1,614*	*4,525*	*1,065*	*7,204*	*1,905*	*5,299*
Luxembourg	*1*	*317*	*7,045*	*7,363*	-	*7,363*
Ireland	*29*	*90*	*3,622*	*3,741*	*99*	*3,642*
United States	6,764	3,440	16,356	26,560	2,974	23,586
Jersey	-	-	4,394	4,394	-	4,394
Canada	1,262	2,059	1,132	4,453	17	4,436
Other institutions (1)	1,741	-	-	1,741	-	1,741

(1) Other Institutions category denotes any international organisation which is governed by public international law or which has been set up by or on the basis of an agreement between two or more countries.

Capital, liquidity and funding risk

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

Definitions (audited)

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

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

Liquidity consists of assets that can be readily converted to cash within a short timeframe at a reliable value. Liquidity risk is defined as the risk that the Group or any of its subsidiaries or branches cannot meet it's actual or potential financial obligations in a timely manner as they fall due in the short term.

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

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

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

Sources of risk (audited)

Capital

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

CET1 capital - CET1 capital must be perpetual and capable of unrestricted and immediate use to cover risks or losses as soon as these occur. This includes ordinary shares issued and retained earnings.

Additional Tier 1 (AT1) capital - This is the second type of loss-absorbing capital and must be capable of absorbing losses on a going concern basis. These instruments are either written down or converted into CET1 capital when the CET1 ratio falls below a pre-specified level.

Tier 2 capital - Tier 2 capital is the bank entities' supplementary capital and provides loss absorption on a gone concern basis. Tier 2 capital absorbs losses after Tier 1 capital. It typically consists of subordinated debt securities which must have a minimum of five years to maturity at all times to be fully recognised for regulatory purposes.

Minimum requirement for own funds and eligible liabilities (MREL)

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

Liquidity

NatWest Group maintains a prudent approach to the definition of liquidity portfolio to ensure it is available when and where required, taking into account regulatory, legal and other constraints. Following ringfencing legislation, liquidity is no longer considered fungible across NatWest Group. Principal liquidity portfolios are maintained in the UK Domestic Liquidity Sub-Group (UKDoLSub) (primarily in NatWest Bank Plc), NatWest Markets Plc, RBS International Limited, NWM N.V and NatWest Bank Europe GmbH. Some disclosures in this section where relevant are presented, on a consolidated basis, for NatWest Group and the UK DoLSub.

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

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

Funding

NatWest Group maintains a diversified set of funding sources, including customer deposits, wholesale deposits and term debt issuance. These are managed against both internal funding and regulatory metrics. The principal levels at which funding risk is managed are at NatWest Group, NatWest Holdings Group, UK DoLSub, NatWest Markets Plc, RBS International Limited, NWM N.V. and NatWest Bank Europe GmbH. NatWest Group also retains access to central bank funding facilities.

For further details on capital constituents and the regulatory framework covering capital, liquidity and funding requirements, refer to the 2024 NatWest Group Pillar 3 Report.

Capital, liquidity and funding risk continued

Capital risk management

Capital management ensures that there is sufficient capital and other loss-absorbing instruments to operate effectively including meeting minimum regulatory requirements, operating within Board-approved risk appetite, maintaining its credit rating and supporting its strategic goals.

Capital management is critical in supporting the businesses and is enacted through an end-to-end framework across businesses and legal entities. Capital is managed within the organisation at the following levels; NatWest Group consolidated, NWH Group sub consolidated, NatWest Markets Plc, RBS Holdings N.V. and RBS International Limited. The banking subsidiaries within NWH Group are governed by the same principles, processes and management as NatWest Group. Note that although the aforementioned entities are regulated in line with Basel III principles, local implementation of the framework differs across geographies.

Capital planning is integrated into NatWest Group's wider annual budgeting process and is assessed and updated at least monthly. Regular returns are submitted to the PRA which include a two-year rolling forecast view. Other elements of capital management, including risk appetite and stress testing, are set out on pages 175 to 177.

Produce capital plans

Capital plans are produced for NatWest Group, its key operating entities and its businesses over a five-year planning horizon under expected and stress conditions. Stressed capital plans are produced to support internal stress testing in the ICAAP for regulatory purposes.

Shorter-term forecasts are developed frequently in response to actual performance, changes in internal and external business environment and to manage risks and opportunities.

Assess capital adequacy

Capital plans are developed to maintain capital of sufficient quantity and quality to support NatWest Group's business, its subsidiaries and strategic plans over the planning horizon within approved risk appetite, as determined via stress testing, and minimum regulatory requirements.

Capital resources and capital requirements are assessed across a defined planning horizon.

Impact assessment captures input from across NatWest Group including from businesses.

Inform capital actions

Capital planning informs potential capital actions including buy backs, redemptions, dividends and new issuance to external investors or via internal transactions.

Decisions on capital actions will be influenced by strategic and regulatory requirements, risk appetite, costs and prevailing market conditions.

As part of capital planning, NatWest Group will monitor its portfolio of external capital securities and assess the optimal blend and most cost effective means of financing.

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

Liquidity risk management

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

The principal levels at which liquidity risk is managed are:

- NatWest Group
- NatWest Holdings Group
- UK DoLSub
- NatWest Markets Plc
- NatWest Markets Securities Inc.
- RBS International Limited
- RBSH N.V.
- NatWest Bank Europe GmbH

The UK DoLSub is PRA-regulated and comprises NatWest Group's three licensed deposit-taking UK banks: National Westminster Bank Plc (NWB Plc), The Royal Bank of Scotland plc (RBS plc) and Coutts & Company.

NatWest Group categorises its liquidity portfolio, including its locally managed liquidity portfolios, into primary and secondary liquid assets. The size of the liquidity portfolios are determined by referencing NatWest Group's liquidity risk appetite. NatWest Group retains a prudent approach to setting the composition of the liquidity portfolios, which is subject to internal policies applicable to all entities and limits over quality of counterparty, maturity mix and currency mix.

RBS International Limited and NWM N.V. hold locally managed portfolios that comply with local regulations that may differ from PRA rules.

The liquidity value of the portfolio is determined by taking current market prices and applying a discount or haircut, to give a liquidity value that represents the amount of cash that can be generated by the asset.

Funding risk management

NatWest Group manages funding risk through a comprehensive framework which measures and monitors the funding risk on the balance sheet including quantitative and qualitative analysis of the behavioural aspects of its assets and liabilities as well as the funding concentration.

Prudential regulation changes that may impact capital requirements

NatWest Group faces numerous changes in prudential regulation that may impact the minimum amount of capital it must hold and consequently may increase funding costs and reduce return on equity.

Regulatory changes are actively monitored by NatWest Group, including engagement with industry associations and regulators and participation in quantitative impact studies. Monitoring the changing regulatory landscape forms a fundamental part of capital planning and management of its business. NatWest Group believes that its strategy to focus on simpler, lower-risk activities within a more resilient recovery and resolution framework will enable it to manage the impact of these.

UK and EU implementation of Basel framework

The Basel framework is an internationally agreed set of measures developed by the Basel Committee on Banking Supervision (BCBS). The Basel III standards are minimum requirements which apply to internationally active banks and ensure a global level playing field on financial regulation. Individual jurisdictions must decide how to implement the standards.

From 1 January 2021, NatWest Group has been regulated under the on-shored CRR and associated on-shored binding technical standards which were created by the European Union (Withdrawal) Act 2018 and amending statutory instruments. As the Withdrawal Act applied to the CRR in place as of 31 December 2020, changes to the CRR in the EU are not reflected in the UK CRR unless separately legislated and amended by statutory instruments. The Financial Services Bill gives the PRA the power to write prudential rules directly into the PRA rulebook and it will co-ordinate with HM Treasury to implement any required changes to the UK CRR.

On 1 January 2022, the PRA implemented changes to the UK CRR to align to the Basel III standards which included the introduction of a new standardised approach for counterparty credit risk (SA-CCR), amendments to the LCR and NSFR rules as well as new regulation applicable to internal ratings (IRB) models. Changes were also introduced to the UK Leverage Ratio framework. Equivalent reforms were implemented in the EU in June 2021, known as CRR2.

On 30 November 2022, the PRA published its consultation paper CP16/22 setting out its proposed rules and expectations with respect to the remaining Basel III standards to be implemented in the UK, also referred to as "Basel 3.1 standards". This will complete the implementation of post-global financial crisis prudential reforms, which were designed to i) increase the quantity of capital in the system, per unit of risk; ii) increase the quality of capital held by firms; and iii) improve the accuracy of risk-management firms, reducing the variability of risk-weighted assets (RWAs).

The Basel 3.1 changes mainly impact capital requirements for STD and IRB Credit Risk, Market Risk, Credit Valuation Adjustment (CVA) Risk, Counterparty Credit Risk (CCR) and Operational Risk. An aggregate "output floor" is also being introduced to ensure that total RWAs for firms using advanced or internally modelled methods and subject to the floor cannot fall below 72.5% of RWAs under the standardised approach. The B3.1 proposal did not include further changes to the Leverage Ratio, Large Exposures and Liquidity Risk frameworks.

The consultation paper has been followed up with the publication of the PRA's policy statement PS17/23 Implementation of the Basel 3.1 standards near-final part 1. That contains the near-final rules on Market Risk, CVA, CCR and Operational Risk sections, along with some Pillar 2 guidance relating to these topics. Part 2, PS9/24, containing rules on the remaining Basel 3.1 changes was published in September 2024. This covered primarily Credit Risk, Credit Risk Mitigation, Output Floor and Disclosures & Reporting.

Following the PRA's announcement on 17 January 2024, the PRA B3.1 rules are to be implemented from 1 January 2027.

Equivalent changes relating to the Basel III standards will be implemented in the EU by the new Banking Package (CRR III/ CRD VI) for which the European Commission issued a proposal in October 2021, with the final rules published in the Official Journal in June 2024. The EU implementation date was 1 January 2025, except for the Market Risk rules which will be implemented on 1 January 2026. Their impact will be limited to NatWest Group's EU subsidiaries.

Other developments in 2024

The IFRS 9 transitional capital rules in respect of ECL provisions were effective until 31 December 2024. The transitional factor reduced further from 50 % to 25% in January 2024.

On 29 November 2024, the PRA announced its 2024 list of O-SIIs (Other Systemically Important Institutions) as well as the 2024 O-SII buffers for ring-fenced banks (RFBs). The PRA is required to identify O-SIIs on an annual basis. NatWest Group Plc is part of the PRA's O-SII list and the O-SII buffer for its ring-fenced sub-group (i.e. NatWest Holdings Group) was kept at 1.5%. An O-SII buffer can apply to O-SIIs, or parts of an O-SII that are ring-fenced banks. The 2024 O-SII rates will apply from 1 January 2026. However, the PRA is expected to re-issue its 2024 O-SII buffer rates in mid-2025 to reflect methodological changes introduced by the Financial Policy Committee (FPC).

Summary of future changes to prudential regulation in UK that may impact NatWest Group

The table below covers expected future changes to prudential regulation in the UK which may impact NatWest Group at a consolidated level. Certain entities within the group will be exposed to changes in prudential regulation from other legislative bodies and/or local supervisory authorities where NatWest Group's entities are authorised (e.g. the EU and Jersey) on a solo basis and these changes may be different in substance, scope and timing from those highlighted below.

In addition to the future changes shown in the table below, the model changes required under CRD IV are still under development and subject to PRA approval. In line with all firms with permissions to use the IRB approach, NatWest Group is currently undertaking a programme of model and rating system development, to align with new regulations which came into force on 1 January 2022. The final CRD IV model outcomes may lead to an increase in RWAs in 2025 and beyond.

Area of development	Key changes	Status /Implementation date
Updates to the UK policy framework for capital buffers	– PRA proposal to streamline some of its policy materials on capital buffers. – In parallel, HMT published its proposal to make amendments to other parts of the CBR (Capital Buffers Regulation), including the CCyB (Countercyclical Capital Buffer), CCoB (Capital Conservation Buffer) and SRB (Systemic Risk Buffer).	– PRA consultation under CP10/24 closed on 12 December 2024; awaiting Policy Statement – Expected implementation: Q2 2025
Large Exposures Framework	– PRA proposal to change to large exposure limits for trading book exposures, both to third parties & intragroup. – PRA proposal to introduce substitution rules when calculating the effect of credit risk mitigation techniques.	– PRA consultation under CP14/24 closed on 17 January 2025 – Implementation: 1 July 2025
Streamlining the Pillar 2A capital framework and the capital communications process	– PRA proposal to retire the refined methodology to Pillar 2A as implemented in 2018. – PRA proposal to streamline firm-specific capital communications. – PRA proposal to make minor amendments for IRRBB and pension obligation risk in P2A.	– PRA consultation under CP9/24 closed on 12 December 2024; awaiting Policy Statement – Implementation: 1 January 2026
Remainder of CRR: Restatement of assimilated law	– PRA proposals to restate the relevant provisions in the assimilated CRR in the PRA Rulebook and other policy material. – Key proposed changes are to the securitisation capital framework, including substantive changes to the SEC-SA calculation, capital requirements for the Mortgage Guarantee Scheme and supervisory expectations relating to the use of unfunded credit protection in synthetic significant risk transfer (SRT) securitisations	– PRA consultation under CP13/24 closed on 15 January 2025 – Implementation: 1 January 2026
Amendments to the approach to setting a minimum requirement for own funds and eligible liabilities (MREL)	– Consultation that brings together proposals relating to the BoE's statement of policy on its approach to setting a minimum requirement for own funds and eligible liabilities. – It clarifies BoE's supervisory expectations for the measurement of non-CET1 instruments.	– BoE consultation closed on 24 January 2025 – Implementation: 1 January 2026 (certain provisions will apply earlier soon after policy is finalised but not before July 2025)
Identification and management of step-in risk, shadow banking entities and groups of connected clients	– PRA proposal to implement Basel guidelines for step-in risk in the PRA Rulebook. – PRA proposal to adopt EBA guidelines for limits on exposures to shadow banking entities and connected clients in the Large Exposures (CRR) part of the PRA Rulebook.	– PRA consultation under CP23/23 closed on 5 March 2024: awaiting Policy Statement – Implementation: 1 January 2026
PRA Basel 3.1 implementation: Capital – Output floor	– Applies at highest level of consolidation for UK Groups (e.g., NatWest Group) and sub-consolidated level for Ring Fenced sub-groups (e.g. NatWest Holdings Group). – Applies to full capital stack including capital buffers. – Transitional period for the application; starting with 60% on 1 January 2027 through to 72.5% at 1 January 2030.	– Near final rules published in PRA PS9/24 – Implementation: 1 January 2027

Summary of future changes to prudential regulation in UK that may impact NatWest Group continued

Area of development	Key changes	Status /Implementation date
PRA Basel 3.1 implementation: Credit Risk (STD, IRB, FIRB)	– Significant revisions to standardised credit risk, including to unrated corporates, exposures to SMEs, specialised lending, mortgages & equity exposures. – Changes to IRB; restrictions on IRB modelling (switch to standardised on central governments and equities, switch to FIRB on financial institutions and large corporates), inclusion of input floors and other modelling changes. – Removal of SME & Infrastructure supporting factors (IRB & standardised). – Amendments to credit risk mitigation, including the withdrawal of some internal modelling approaches, the removal of double default and a new risk-weight substitution approach on some exposures.	– Near final rules published in PRA PS9/24 – Implementation: 1 January 2027
PRA Basel 3.1 implementation: Market Risk	– Implementation of FRTB (Fundamental Review of Trading Book) - new standardised approaches – Revised banking/trading book boundary.	– Near final rules published in PRA PS17/23 – Implementation: 1 January 2027
PRA Basel 3.1 implementation: Capitalisation of foreign exchange positions for market risk	– PRA proposal to clarify that items held at historical FX rates, which only re-value in certain circumstances, are not included in Pillar 1 FX risk requirements as their sensitivity to FX rates is generally zero.	– PRA consultation under CP17/23 closed on 31 January 2024; awaiting Policy Statement – Expected implementation: 1 January 2027
PRA Basel 3.1 implementation: CVA & Counterparty Credit Risk	– Removal of modelled approach for CVA and introduction of new methodologies (SA-CVA, BA-CVA). – New standardised approach, aligned to Basel framework, including the removal of CVA exemptions on sovereigns, non-financial counterparties, and pension funds. – Reduced SA-CCR alpha factor from 1.4 to 1 for non-financial counterparties and pension funds.	– Near final rules published in PRA PS17/23 – Implementation: 1 January 2027
PRA Basel 3.1 implementation: Operational Risk	– New standardised approach. – Internal Loss Multiplier (ILM) set to 1. – Changes to the income requirements in scope of the business indicator.	– Near final rules published in PRA PS17/23 – Implementation: 1 January 2027
PRA Basel 3.1 implementation: Disclosures & Reporting	– PRA adopts disclosure templates without material deviations from the Basel disclosure standard. – PRA updates supervisory reporting requirements to reflect changes introduced under the B3.1 rules.	– Near final rules published in PRA PS9/24 – Implementation: 1 January 2027
PRA Basel 3.1 implementation: Pillar 2	– PRA updates to the Pillar 2 requirements, necessary for the implementation of Basel 3.1 changes in the UK Pillar 1 framework.	– Feedback published in PRA PS9/24 – Implementation: 1 January 2027
Definition of Capital: restatement of CRR requirements in PRA Rulebook	– HM Treasury announced its intention to bring into force the revocation of CRR requirements relating to the definition of own funds. – PRA proposal to restate, and in some cases modify, these requirements in the PRA Rulebook.	– PRA consultation under CP8/24 closed on 12 December 2024 – Implementation date to be confirmed under another consultation paper

Key points

CET1 ratio

13.6%

(2023 – 13.4%)

The CET1 ratio increased by 20 basis points to 13.6% due to a £0.5 billion increase in CET1 capital partially offset by a £0.2 billion increase in RWAs.

The CET1 capital increase was driven by an attributable profit to ordinary shareholders of £4.5 billion partially offset by:

- a directed buyback of £2.2 billion;
- a foreseeable ordinary dividend accrual of £1.2 billion;
- an ordinary interim dividend paid of £0.5 billion;
- other movements on reserves and regulatory adjustments of £0.1 billion.

RWAs

£183.2bn

(2023 - £183.0bn)

Total RWAs increased by £0.2 billion to £183.2 billion mainly reflecting:

– an increase in credit risk RWAs of £0.5 billion, primarily driven by the £0.9 billion Metro Bank mortgage portfolio acquisition, increased lending and an uplift in IRB temporary model adjustments within Retail Banking and an increase in drawdowns and new facilities within Commercial & Institutional. Increases were partially offset by active RWA management and movements in risk parameters.
– a decrease in counterparty credit risk RWAs of £0.7 billion driven by reduced over-the-counter exposures and securities financing transactions.
– an increase in operational risk RWAs of £1.6 billion following the annual recalculation.
– a reduction in market risk RWAs of £1.2 billion, notably driven by RWA reduction activity during H1 and lower interest rate risk in H2.

MREL ratio

33.0%

(2023 – 30.5%)

The MREL ratio increased to 33.0% driven by a £4.7 billion increase in MREL offset by a £0.2 billion increase in RWAs. MREL increased to £60.5 billion driven by a £2.5 billion increase in eligible capital and a £2.2 billion increase in senior unsecured debt.

The capital increase was driven by CET1 movements, issuance of $1.8 billion Additional Tier 1 instruments and a £0.7 billion increase driven by issuances and redemptions of subordinated debt instruments.

The increase in senior unsecured debt was driven by the issuance of USD debt instruments totalling $4.6 billion and EUR debt instruments totalling €1.8 billion, partially offset by redemption of €1.5 billion debt instruments and a $2.0 billion debt instrument.

UK leverage ratio

5.0%

(2023 – 5.0%)

The leverage ratio remained static at 5.0%. This was driven by a £45.0 billion increase in leverage exposure offset by a £1.9 billion increase in Tier 1 capital. The key drivers in the leverage exposure were an increase in other financial assets, other off balance sheet items and trading assets.

Liquidity portfolio

£222.3bn

(2023 - £222.8bn)

The liquidity portfolio decreased by £0.5 billion to £222.3 billion during the year. Primary liquidity increased by £13.0 billion to £161.0 billion, driven by an increase in customer deposits and issuance, partially offset by increased lending (including Metro Bank mortgage portfolio acquisition) and capital distributions (share buyback and dividends). Secondary liquidity decreased by £13.5 billion due to a decrease in pre-positioned collateral at the Bank of England.

LCR spot

150%

(2023 – 144%)

LCR average

151%

(2023 – 141%)

The spot Liquidity Coverage Ratio (LCR) increased by 6% to 150% during the year driven by increased customer deposits and issuance, partially offset by increased lending (including Metro Bank mortgage portfolio acquisition) and capital distributions (share buyback and dividends).

NSFR spot

137%

(2023 – 133%)

NSFR average

137%

(2023 – 137%)

The spot Net Stable Funding Ratio (NSFR) increased 4% during the year to 137% driven by increased customer deposits, issuance and secured borrowing partially offset by increased lending.

Minimum requirements

Maximum Distributable Amount (MDA) and Minimum Capital Requirements

NatWest Group is subject to minimum capital requirements relative to RWAs. The table below summarises the minimum capital requirements (the sum of Pillar 1 and Pillar 2A), and the additional capital buffers which are held in excess of the regulatory minimum requirements and are usable in stress.

Where the CET1 ratio falls below the sum of the minimum capital and the combined buffer requirement, there is a subsequent automatic restriction on the amount available to service discretionary payments (including AT1 coupons), known as the MDA. Note that different capital requirements apply to individual legal entities or sub-groups and the table shown does not reflect any incremental PRA buffer requirements, which are not disclosable.

The current capital position provides significant headroom above both our minimum requirements and our MDA threshold requirements.

Type	CET1	Total Tier 1	Total capital
Pillar 1 requirements	4.5%	6.0%	8.0%
Pillar 2A requirements	1.8%	2.4%	3.2%
Minimum Capital Requirements	6.3%	8.4%	11.2%
Capital conservation buffer	2.5%	2.5%	2.5%
Countercyclical capital buffer (1)	1.7%	1.7%	1.7%
MDA threshold (2)	10.5%	n/a	n/a
Overall capital requirement	10.5%	12.6%	15.4%
Capital ratios at 31 December 2024	13.6%	16.5%	19.7%
Headroom (3) (4)	3.1%	3.9%	4.3%

(1) The UK countercyclical buffer (CCyB) rate is currently being maintained at 2%. This may vary in either direction in the future subject to how risks develop. Foreign exposures may be subject to different CCyB rates depending on the rate set in those jurisdictions.
(2) Pillar 2A requirements for NatWest Group are set as a variable amount with the exception of some fixed add-ons.
(3) The headroom does not reflect excess distributable capital and may vary over time.
(4) Headroom as at 31 December 2023 was CET1 2.9%, Total Tier 1 2.9% and Total Capital 3.0%.

Leverage ratios

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

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

(1) The countercyclical leverage ratio buffer is set at 35% of NatWest Group's CCyB.

Liquidity and funding ratios

The table below summarises the minimum requirements for key liquidity and funding metrics under the PRA framework.

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

Measurement

Capital, risk-weighted assets and leverage: Key metrics

The table below sets out the key capital and leverage ratios. NatWest Group is subject to the requirements set out in the PRA Rulebook. The capital and leverage ratios are therefore being presented under these frameworks on a transitional basis.(1)

	2024	2023
Capital adequacy ratios (1)	**%**	%
CET1	**13.6**	13.4
Tier 1	**16.5**	15.5
Total	**19.7**	18.4
RWAs	**£m**	£m
Credit risk	**148,078**	147,598
Counterparty credit risk	**7,103**	7,830
Market risk	**6,219**	7,363
Operational risk	**21,821**	20,198
Total RWAs	**183,221**	182,989
Capital	**£m**	£m
CET1	**24,928**	24,440
Tier1	**30,187**	28,315
Total	**36,105**	33,632
Leverage ratios	**£m**	£m
Tier 1 capital	**30,187**	28,315
UK leverage exposure	**607,799**	562,843
UK leverage ratio (%) (2)	**5.0%**	5.0%
UK average Tier 1 capital (3)	**29,923**	28,323
UK average leverage exposure (3)	**600,354**	571,225
UK average leverage ratio (%) (3)	**5.0%**	5.0%

(1) Based on current PRA rules, includes the transitional arrangements for the capital impact of IFRS 9 expected credit loss (ECL) accounting. The impact of the IFRS 9 transitional adjustments at 31 December 2024 was £33 million for CET1 capital, £33 million for Total capital and £3 million RWAs (31 December 2023 - £0.2 billion CET1 capital, £54 million total capital and £17 million RWAs). Excluding this adjustment, the CET1 ratio would be 13.6% (31 December 2023 – 13.2%). Tier 1 capital ratio would be 16.5% (31 December 2023 – 15.4%) and the Total capital ratio would be 19.7% (31 December 2023 – 18.4%). The IFRS9 transitional capital rules in respect of ECL provisions will no longer apply from 1 January 2025.

(2) The UK leverage exposure and transitional Tier 1 capital are calculated in accordance with current PRA rules. Excluding the IFRS 9 transitional adjustment, the UK leverage ratio would be 5.0% (31 December 2023 – 5.0%).

(3) Based on the daily average of on-balance sheet items and three month-end average of off-balance sheet items and Tier 1 capital.

Capital flow statement

The table below analyses the movement in CET1, AT1 and Tier 2 capital for the year ended 31 December 2024. It is being presented on a transitional basis based on current PRA rules.

	CET1 £m	AT1 £m	Tier 2 £m	Total £m
At 31 December 2023	24,440	3,875	5,317	33,632
Attributable profit for the period	4,519	-	-	4,519
Ordinary interim dividend paid	(497)	-	-	(497)
Directed buyback	(2,246)	-	-	(2,246)
Foreseeable ordinary dividends	(1,249)	-	-	(1,249)
Foreign exchange reserve	(15)	-	-	(15)
FVOCI reserve	(54)	-	-	(54)
Own credit	38	-	-	38
Share based remuneration and shares vested under employee share schemes	215	-	-	215
Goodwill and intangibles deduction	70	-	-	70
Deferred tax assets	(105)	-	-	(105)
Prudential valuation adjustments	49	-	-	49
New issues of capital instruments	-	1,384	1,387	2,771
Redemption of capital instruments	-	-	(622)	(622)
Foreign exchange movements	-	-	(36)	(36)
Adjustment under IFRS 9 transitional arrangements	(169)	-	-	(169)
Expected loss less impairment	(27)	-	-	(27)
Other movements	(41)	-	(128)	(169)
At 31 December 2024	24,928	5,259	5,918	36,105

– For CET1 movements, refer to the key points on page 239.
– AT1 movements reflects the £0.8 billion in relation to $1.0 billion 8.125% Reset Perpetual Subordinated Contingent Convertible Notes issued in May 2024 and a £0.6 billion in relation to $0.8 billion 7.300% Reset Perpetual Subordinated Contingent Convertible Notes issued in November 2024.
– Tier 2 instrument movements of £0.7 billion include £0.8 billion in relation to $1.0 billion 6.475% Fixed to Fixed Reset Subordinated Tier 2 Notes 2034 issued in March 2024 and a £0.6 billion 5.642% Fixed to Fixed Reset Subordinated Tier 2 Notes 2034 issued in September 2024, partially offset by the £0.1 billion redemption of 5.125% Subordinated Tier 2 Notes 2024 in May 2024, £0.6 billion in relation to the $0.8 billion redemption of Fixed to Fixed Reset Subordinated Tier 2 Notes 2029 in September 2024 and foreign exchange movements.
– Within Tier 2, there was a decrease in the Tier 2 surplus provisions.

Capital, liquidity and funding risk continued

Risk-weighted assets

The table below analyses the movement in RWAs during the year, by key drivers.

	Credit risk £bn	Counterparty credit risk £bn	Market risk £bn	Operational risk (1) £bn	Total £bn
At 31 December 2023	147.6	7.8	7.4	20.2	183.0
Foreign exchange movement	(0.4)	-	-	-	(0.4)
Business movement	-	(0.6)	(1.2)	1.6	(0.2)
Risk parameter changes	(0.4)	(0.1)	-	-	(0.5)
Methodology changes	(0.1)	-	-	-	(0.1)
Model updates	0.5	-	-	-	0.5
Acquisitions and disposals	0.9	-	-	-	0.9
At 31 December 2024	148.1	7.1	6.2	21.8	183.2

(1) Operational risk annual recalculation is performed at Q1 based on the previous 3 years audited income.

The table below analyses the movement in RWAs by segment during the year.

Total RWAs	Retail Banking £bn	Private Banking £bn	Commercial & Institutional £bn	Central items & other £bn	Total NatWest Group £bn
At 31 December 2023	61.6	11.2	107.4	2.8	183.0
Foreign exchange movement	-	-	(0.4)	-	(0.4)
Business movement	2.1	(0.2)	(1.3)	(0.8)	(0.2)
Risk parameter changes	0.2	-	(0.7)	-	(0.5)
Methodology changes	-	-	(0.1)	-	(0.1)
Model updates	0.7	-	(0.2)	-	0.5
Acquisitions and disposals	0.9	-	-	-	0.9
At 31 December 2024	65.5	11.0	104.7	2.0	183.2
Credit risk	57.0	9.5	80.1	1.5	148.1
Counterparty credit risk	0.3	-	6.8	-	7.1
Market risk	0.1	-	6.1	-	6.2
Operational risk	8.1	1.5	11.7	0.5	21.8
Total RWAs	65.5	11.0	104.7	2.0	183.2

Total RWAs increased by £0.2 billion during the period mainly reflecting:

- A reduction in risk-weighted assets from foreign exchange movements of £0.4 billion due to sterling depreciation versus the US dollar and appreciation versus the euro.
- Offsetting business movements due to an increase in drawdowns and new facilities within Commercial & Institutional, lending growth in Retail Banking and an increase due to the annual recalculation of operational risk. These increases were mainly offset by reductions due to active RWA management, lower market risk and lower counterparty risk.
- A reduction in risk parameters of £0.5 billion primarily driven by customers moving into default partially offset by a deterioration in risk metrics within Commercial & Institutional.
- An increase in model updates of £0.5 billion driven by IRB temporary model adjustments within Retail Banking.
- An increase in acquisitions of £0.9 billion for the Metro Bank mortgage portfolio acquisition within Retail Banking.

Capital, liquidity and funding risk continued

Leverage exposure

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

	31 December 2024 £m	31 December 2023 £m
Cash and balances at central banks	**92,994**	104,262
Trading assets	**48,917**	45,551
Derivatives	**78,406**	78,904
Financial assets	**469,599**	439,449
Other assets	**18,069**	24,507
Total assets	**707,985**	692,673
Derivatives		
- netting and variation margin	**(76,101)**	(79,299)
- potential future exposures	**16,692**	17,212
Securities financing transactions gross up	**2,460**	1,868
Other off balance sheet items	**59,498**	50,961
Regulatory deductions and other adjustments	**(11,014)**	(16,043)
Claims on central banks	**(89,299)**	(100,735)
Exclusion of bounce back loans	**(2,422)**	(3,794)
UK leverage exposure	**607,799**	562,843
UK leverage ratio (%)	**5.0**	5.0

Liquidity key metrics

The table below sets out the key liquidity and related metrics monitored by NatWest Group.

	2024				2023			
	NatWest Group		**UK DoLSub**		NatWest Group		UK DoLSub	
	Spot	**Average**	**Spot**	**Average**	Spot	Average	Spot	Average
Liquidity Coverage Ratio (1)	**150%**	**151%**	**142%**	**142%**	144%	141%	138%	127%
Net Stable Funding Ratio (2)	**137%**	**137%**	**129%**	**130%**	133%	137%	126%	129%
Stressed Outflow Coverage (3)	**162%**		**149%**		153%		143%	

(1) The LCR Average is calculated as the average of the preceding 12 months.
(2) The NSFR Average is calculated as the average of the preceding four quarters.
(3) NatWest Group's Stressed Outflow Coverage (SOC) is an internal measure calculated by reference to liquid assets as a percentage of net stressed contractual and behavioural outflows over three months. The most severe outcome is selected from a range of scenarios comprising of market-wide, idiosyncratic and a combination of both. This assessment is performed in accordance with PRA guidance.

Capital, liquidity and funding risk continued

Minimum requirements of own funds and eligible liabilities (MREL)

The following table illustrates the components of estimated MREL in NatWest Group and operating subsidiaries and includes external issuances only. The roll-off profile relating to senior debt and subordinated debt instruments is set out on page 246.

	2024				2023			
	Par value (1) £bn	Balance sheet value £bn	Regulatory value £bn	MREL value (2) £bn	Par value (1) £bn	Balance sheet value £bn	Regulatory value £bn	MREL value (2) £bn
CET1 capital (3)	24.9	24.9	24.9	24.9	24.4	24.4	24.4	24.4
Tier 1 capital: end-point CRR compliant AT1								
of which: NatWest Group plc (holdco)	5.3	5.3	5.3	5.3	3.9	3.9	3.9	3.9
of which: NatWest Group plc operating subsidiaries (opcos)	-	-	-	-	-	-	-	-
	5.3	5.3	5.3	5.3	3.9	3.9	3.9	3.9
Tier 1 capital: end-point CRR non-compliant								
of which: holdco	-	-	-	-	-	-	-	-
of which: opcos	0.1	0.1	-	-	0.1	0.1	-	-
	0.1	0.1	-	-	0.1	0.1	-	-
Tier 2 capital: end-point CRR compliant								
of which: holdco	5.9	5.7	5.9	5.9	5.6	5.3	5.2	5.2
of which: opcos	-	-	-	-	-	-	-	-
	5.9	5.7	5.9	5.9	5.6	5.3	5.2	5.2
Tier 2 capital: end-point CRR non compliant								
of which: holdco	-	-	-	-	-	-	-	-
of which: opcos	0.2	0.3	-	-	0.2	0.3	-	-
	0.2	0.3	-	-	0.2	0.3	-	-
Senior unsecured debt securities								
of which: holdco	24.4	24.0	-	24.4	22.2	21.7	-	22.2
of which: opcos (4)	33.7	33.6	-	-	33.4	29.9	-	-
	58.1	57.6	-	24.4	55.6	51.6	-	22.2
Tier 2 capital								
Other regulatory adjustments	-	-	-	-	-	-	0.1	0.1
Total	94.5	93.9	36.1	60.5	89.8	85.6	33.6	55.8
RWAs				183.2				183.0
UK leverage exposure				607.8				562.8
MREL as a ratio of RWAs				33.0%				30.5%
MREL as a ratio of UK leverage exposure				9.9%				9.9%

(1) Par value reflects the nominal value of securities issued.
(2) MREL value reflects NatWest Group's interpretation of the Bank of England's current approach to setting a MREL, published in December 2021 (Updating June 2018). Liabilities excluded from MREL include instruments with less than one year remaining to maturity, structured debt, operating company senior debt, and other instruments that do not meet the MREL criteria. The MREL calculation includes Tier 1 and Tier 2 securities before the application of any regulatory caps or adjustments.
(3) Shareholders' equity was £39.4 billion (2023 - £37.2 billion).
(4) As per 2023, Intra group issuances were reported in Par value but on further clarification from BoE, it has been excluded from reporting in 2024.

Capital, liquidity and funding risk continued

Minimum requirements of own funds and eligible liabilities (MREL) continued

The following table illustrates the components of the stock of outstanding issuance in NatWest Group and its operating subsidiaries including external and internal issuances.

		NatWest Group plc £bn	NatWest Holdings Limited £bn	NWB Plc £bn	RBS plc £bn	NWM Plc £bn	NatWest Markets N.V. £bn	NWM Securities Inc.(6) £bn	RBS International Limited (7) £bn
Additional Tier 1	Externally issued	5.3	-	0.1	-	-	-	-	-
Additional Tier 1	Internally issued	-	3.9	3.3	0.5	1.5	0.2	-	0.3
		5.3	3.9	3.4	0.5	1.5	0.2	-	0.3
Tier 2	Externally issued	5.7	-	-	-	-	0.3	-	-
Tier 2	Internally issued	-	4.5	3.6	0.6	1.1	0.1	0.3	-
		5.7	4.5	3.6	0.6	1.1	0.4	0.3	-
Senior unsecured	Externally issued	24.0	-	-	-	-	-	-	-
Senior unsecured	Internally issued	-	13.3	6.6	1.1	4.4	-	-	0.3
		24.0	13.3	6.6	1.1	4.4	-	-	0.3
Total outstanding issuance		35.0	21.7	13.6	2.2	7.0	0.6	0.3	0.6

(1) For AT1 & Tier 2, the balances are the IFRS balance sheet carrying amounts, which may differ from the amount which the instrument contributes to regulatory capital. Regulatory balances exclude, for example, issuance costs and fair value movements, while dated capital is required to be amortised on a straight-line basis over the final five years of maturity.
(2) Balance sheet amounts reported for AT1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.
(3) Internal issuance for NWB Plc and RBS Plc represents AT1, Tier 2 or Senior unsecured issuance to NatWest Holdings Limited and for NWM N.V. and NWM SI to NWM Plc.
(4) The balances are the IFRS balance sheet carrying amounts for Senior unsecured debt category and it does not include CP, CD and short term/medium notes issued from NatWest Group operating subsidiaries
(5) The above table does not include CET1 numbers.
(6) NWM Securities Inc - regulated under US broker dealer rules.
(7) RBS International limited - MREL resolution rules are under consultation in Jersey.

Roll-off profile

The following table illustrates the roll-off profile of NatWest Group's major wholesale funding programmes.

	As at and for year ended 31 December 2024	Roll-off profile					
		H1 2025	H2 2025	2026	2027	2028 & 2029	2030 & later
Senior debt roll-off profile (1)	£m	£m	£m	£m	£m	£m	£m
NatWest Group plc	23,998	-	-	4,435	2,443	9,553	7,567
NWM Plc	27,060	6,288	4,750	6,530	4,686	4,277	529
NatWest Bank Plc	2,623	2,596	27	-	-	-	-
NWM N.V.	2,405	1,358	255	573	-	-	219
NatWest Bank Plc - Covered bonds	750	-	-	-	-	750	-
Total notes issued	56,836	10,242	5,032	11,538	7,129	14,580	8,315
Subordinated debt instruments roll-off profile (2)							
NatWest Group plc	5,743	997	-	941	585	2,669	551
NWM Plc	18	-	-	17	-	-	1
NWM N.V.	251	-	-	-	-	-	251
Total subordinated debt	6,012	997	-	958	585	2,669	803

(1) Based on final contractual instrument maturity.
(2) Based on first call date of instrument; however, this does not indicate NatWest Group's strategy on capital and funding management. The table above does not include debt accounted Tier 1 instruments although those instruments form part of the total subordinated debt balance.
(3) The roll-off table is based on sterling-equivalent balance sheet values.

Liquidity portfolio

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

	2024			2023		
	NatWest Group (1)	NWH Group (2)	UK DoL Sub	NatWest Group (1)	NWH Group (2)	UK DoL Sub
	£m	£m	£m	£m	£m	£m
Cash and balances at central banks	88,617	58,313	57,523	99,855	68,495	67,954
High quality government/MDB/PSE and GSE bonds (3)	58,818	43,275	43,275	36,250	26,510	26,510
Extremely high quality covered bonds	4,341	4,340	4,340	4,164	4,164	4,164
LCR level 1 Eligible Assets	151,776	105,928	105,138	140,269	99,169	98,628
LCR level 2 Eligible Assets (4)	9,271	7,957	7,957	7,796	7,320	7,320
Primary liquidity (HQLA) (5)	161,047	113,885	113,095	148,065	106,489	105,948
Secondary liquidity	61,230	61,200	61,200	74,722	74,683	74,683
Total liquidity value	222,277	175,085	174,295	222,787	181,172	180,631

(1) NatWest Group includes the UK Domestic Liquidity Sub-Group (NWB Plc, RBS plc and Coutts & Co), NatWest Markets Plc and other significant operating subsidiaries that hold liquidity portfolios. These include The Royal Bank of Scotland International Limited and NWM N.V. who hold managed portfolios that comply with local regulations that may differ from PRA rules.
(2) NWH Group comprises UK DoLSub and NatWest Bank Europe GmbH who hold managed portfolios that comply with local regulations that may differ from PRA rules.
(3) Multilateral development bank abbreviated to MDB, public sector entities abbreviated to PSE and government sponsored entities abbreviated to GSE.
(4) Includes Level 2A and Level 2B.
(5) High-quality liquid assets abbreviated to HQLA.

Funding sources (audited)

The table below shows the carrying values of the principal funding sources based on contractual maturity. Balance sheet captions include balances held at all classifications under IFRS 9.

	2024			2023		
	Short-term less than 1 year £m	Long-term more than 1 year £m	Total £m	Short-term less than 1 year £m	Long-term more than 1 year £m	Total £m
Bank Deposits						
Repos	**11,967**	**-**	**11,967**	3,118	-	3,118
Other bank deposits (1)	**9,708**	**9,777**	**19,485**	5,836	13,236	19,072
	21,675	**9,777**	**31,452**	8,954	13,236	22,190
Customer Deposits						
Repos	**1,363**	**-**	**1,363**	10,844	-	10,844
Non-bank financial institutions	**48,761**	**241**	**49,002**	46,875	13	46,888
Personal	**231,483**	**2,451**	**233,934**	216,456	6,436	222,892
Corporate	**149,086**	**105**	**149,191**	150,718	35	150,753
	430,693	**2,797**	**433,490**	424,893	6,484	431,377
Trading liabilities (2)						
Repos (3)	**29,752**	**810**	**30,562**	26,634	268	26,902
Derivatives collateral	**12,509**	**-**	**12,509**	15,075	-	15,075
Other bank and customer deposits	**627**	**268**	**895**	768	382	1,150
Debt securities in issue - Medium term notes	**20**	**237**	**257**	418	288	706
	42,908	**1,315**	**44,223**	42,895	938	43,833
Other financial liabilities						
Customer deposits including repos	**471**	**1,341**	**1,812**	194	1,086	1,280
Debt securities in issue:						
Commercial paper and certificates of deposit	**10,889**	**377**	**11,266**	11,116	205	11,321
Medium term notes	**11,118**	**34,967**	**46,085**	6,878	32,625	39,503
Covered bonds	**-**	**749**	**749**	2,122	-	2,122
Securitisation	**295**	**880**	**1,175**	-	863	863
	22,773	**38,314**	**61,087**	20,310	34,779	55,089
Subordinated liabilities	**1,051**	**5,085**	**6,136**	1,047	4,667	5,714
Total funding	**519,100**	**57,288**	**576,388**	498,099	60,104	558,203
Of which: available in resolution (4)			***29,742***	-	-	*26,561*

(1) Includes £12.0 billion (2023 – £12.0 billion) relating to Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises participation.
(2) Excludes short positions of £10.5 billion (2023 – £9.8 billion).
(3) Comprises central & other bank repos of £7.2 billion (2023 – £4.0 billion), other financial institution repos of £20.4 billion (2023 – £20.4 billion) and other corporate repos of £3.0 billion (2023 – £2.5 billion).
(4) Eligible liabilities (as defined in the Banking Act 2009 as amended from time to time) that meet the eligibility criteria set out in the regulations, rules, policies, guidelines, or statements of the Bank of England including the Statement of Policy published by the Bank of England in December 2021 (updating June 2018). The balance consists of £24.0 billion (2023 – £21.7 billion) under debt securities in issue (senior MREL) and £5.74 billion (2023 – £4.9 billion) under subordinated liabilities.

Capital, liquidity and funding risk continued

Contractual maturity (audited)

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

	Banking activities										
2024	Less than 1 months £m	1-3 months £m	3-6 months £m	6 months-1 year £m	Subtotal £m	1-3 years £m	3-5 years £m	More than 5 years £m	Total £m	Trading activities £m	Total £m
Cash and balances at central banks	**92,994**	**-**	**-**	**-**	**92,994**	**-**	**-**	**-**	**92,994**	**-**	**92,994**
Trading assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**48,917**	**48,917**
Derivatives	**-**	**(2)**	**37**	**-**	**35**	**65**	**18**	**1**	**119**	**78,287**	**78,406**
Settlement balances	**2,085**	**-**	**-**	**-**	**2,085**	**-**	**-**	**-**	**2,085**	**-**	**2,085**
Loans to banks - amortised cost	**4,699**	**386**	**259**	**16**	**5,360**	**533**	**1**	**136**	**6,030**	**-**	**6,030**
Loans to customers - amortised cost (1)	**43,451**	**19,278**	**15,927**	**25,329**	**103,985**	**59,798**	**44,831**	**195,057**	**403,671**	**-**	**403,671**
Personal	**5,682**	**2,271**	**3,089**	**6,033**	**17,075**	**23,657**	**20,420**	**164,886**	**226,038**	**-**	**226,038**
Corporate	**19,003**	**5,762**	**3,794**	**8,033**	**36,592**	**29,353**	**20,506**	**25,721**	**112,172**	**-**	**112,172**
Non-bank financial institutions	**18,766**	**11,245**	**9,044**	**11,263**	**50,318**	**6,788**	**3,905**	**4,450**	**65,461**	**-**	**65,461**
Other financial assets	**2,840**	**3,263**	**2,478**	**5,832**	**14,413**	**16,083**	**11,563**	**20,381**	**62,440**	**803**	**63,243**
Total financial assets	**146,069**	**22,925**	**18,701**	**31,177**	**218,872**	**76,479**	**56,413**	**215,575**	**567,339**	**128,007**	**695,346**
2023											
Total financial assets	153,397	22,051	17,695	26,226	219,369	71,664	54,626	208,215	553,874	125,050	678,924

(1) Loans to customers excludes £3.3 billion (2023 - £3.5 billion) of impairment provisions.

Capital, liquidity and funding risk continued

Contractual maturity (audited)

2024	Banking activities Less than 1 months £m	1-3 months £m	3-6 months £m	6 months - 1 year £m	Subtotal £m	1-3 years £m	3-5 years £m	More than 5 years £m	Total £m	Trading activities £m	Total £m
Bank deposits excluding repos	4,857	260	284	4,307	9,708	9,629	81	67	19,485	-	19,485
Bank repos	10,692	954	321	-	11,967	-	-	-	11,967	-	11,967
Customer repos	1,363	-	-	-	1,363	-	-	-	1,363	-	1,363
Customer deposits excluding repos	373,869	21,381	16,416	17,664	429,330	2,709	14	74	432,127	-	432,127
Personal	202,658	5,728	8,010	15,087	231,483	2,450	1	-	233,934	-	233,934
Corporate	127,646	11,633	7,703	2,104	149,086	87	11	7	149,191	-	149,191
Non-bank financial institutions	43,565	4,020	703	473	48,761	172	2	67	49,002	-	49,002
Settlement balances	1,729	-	-	-	1,729	-	-	-	1,729	-	1,729
Trading liabilities	-	-	-	-	-	-	-	-	-	54,714	54,714
Derivatives	14	17	174	88	293	169	-	2	464	71,618	72,082
Other financial liabilities	3,473	6,266	3,074	9,960	22,773	19,729	13,429	5,156	61,087	-	61,087
CPs and CDs	3,390	2,329	2,792	2,378	10,889	377	-	-	11,266	-	11,266
Medium term notes	70	3,914	214	6,920	11,118	18,426	12,409	4,132	46,085	-	46,085
Covered bonds	-	-	-	-	-	-	749	-	749	-	749
Securitisations	-	-	-	295	295	7	-	873	1,175	-	1,175
Customer deposits including repos	13	23	68	367	471	919	271	151	1,812	-	1,812
Subordinated liabilities	-	42	1,007	2	1,051	1,523	2,623	939	6,136	-	6,136
Notes in circulation	3,316	-	-	-	3,316	-	-	-	3,316	-	3,316
Lease liabilities	10	16	23	45	94	146	93	297	630	-	630
Total financial liabilities	399,323	28,936	21,299	32,066	481,624	33,905	16,240	6,535	538,304	126,332	664,636
2023											
Total financial liabilities	392,957	27,195	22,914	22,236	465,302	31,146	22,787	5,956	525,191	125,762	650,953

Capital, liquidity and funding risk continued

Senior notes and subordinated liabilities - residual maturity profile by instrument type (audited)

The table below shows NatWest Group's debt securities in issue and subordinated liabilities by residual maturity.

	Trading liabilities	Other financial liabilities						
		Debt securities in issue						
	Debt securities in issue MTNs	Commercial paper and CDs	MTNs	Covered bonds	Securitisation	Subordinated liabilities	Total	Total notes in issue
2024	£m	£m	£m	£m	£m	£m	£m	£m
Less than 1 year	**20**	**10,889**	**11,118**	**-**	**295**	**1,051**	**23,353**	**23,373**
1-3 years	**35**	**377**	**18,426**	**-**	**7**	**1,523**	**20,333**	**20,368**
3-5 years	**42**	**-**	**12,409**	**749**	**-**	**2,623**	**15,781**	**15,823**
More than 5 years	**160**	**-**	**4,132**	**-**	**873**	**939**	**5,944**	**6,104**
Total	**257**	**11,266**	**46,085**	**749**	**1,175**	**6,136**	**65,411**	**65,668**
2023								
Less than 1 year	418	11,116	6,878	2,122	-	1,047	21,163	21,581
1-3 years	48	205	16,188	-	297	1,877	18,567	18,615
3-5 years	-	-	11,953	-	376	1,874	14,203	14,203
More than 5 years	240	-	4,484	-	190	916	5,590	5,830
Total	706	11,321	39,503	2,122	863	5,714	59,523	60,229

The table below shows the currency breakdown.

	GBP	USD	EUR	Other	Total
2024	£m	£m	£m	£m	£m
Commercial paper and CDs	**4,282**	**2,340**	**4,644**	**-**	**11,266**
MTNs	**5,015**	**20,089**	**18,233**	**3,005**	**46,342**
Covered bonds	**749**	**-**	**-**	**-**	**749**
Securitisation	**1,175**	**-**	**-**	**-**	**1,175**
Subordinated liabilities	**3,320**	**1,368**	**1,448**	**-**	**6,136**
Total	**14,541**	**23,797**	**24,325**	**3,005**	**65,668**
2023					
Total	13,605	21,780	21,766	3,078	60,229

Capital, liquidity and funding risk continued

Funding gap: maturity and segment analysis

The contractual maturity of loans to customers and customer deposits are shown below. The table demonstrates the maturity transformation role being performed by NatWest Group of lending long-term whilst relying largely on short-term funding. This is possible as the behavioural profiles of many customer deposits, which tend to be repayable on demand, show longer maturity and greater stability than their contractual agreements.

NatWest Group forms expectations on customer behaviours through both qualitative and quantitative techniques, incorporating observed customer behaviours over historic time periods, which includes the more recent periods of interest rate change. Customer behaviour assumptions are approved by the NatWest Group Balance Sheet Committee and have been used to prepare the funding gap analysis, which reduces maturity mismatch across the periods shown.

	Contractual maturity												Behavioural maturity			
	Loans to customers (1)				Customer deposits				Net surplus/(gap)				Net surplus/(gap)			
2024	Less than 1 year £bn	1-5 years £bn	Greater than 5 years £bn	Total £bn	Less than 1 year £bn	1-5 years £bn	Greater than 5 years £bn	Total £bn	Less than 1 year £bn	1-5 years £bn	Greater than 5 years £bn	Total £bn	Less than 1 year £bn	1-5 years £bn	Greater than 5 years £bn	Total £bn
Retail Banking	**12**	**40**	**156**	**208**	**192**	**2**	**-**	**194**	**180**	**(38)**	**(156)**	**(14)**	**(6)**	**(5)**	**(3)**	**(14)**
Private Banking	**3**	**6**	**9**	**18**	**42**	**-**	**-**	**42**	**39**	**(6)**	**(9)**	**24**	**15**	**10**	**(1)**	**24**
Commercial & Institutional	**53**	**59**	**32**	**144**	**201**	**1**	**-**	**202**	**148**	**(58)**	**(32)**	**58**	**10**	**54**	**(6)**	**58**
Central items & other	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**1**	**1**	**-**	**-**	**1**	**1**	**-**	**-**	**1**
Total	**68**	**105**	**197**	**370**	**436**	**3**	**-**	**439**	**368**	**(102)**	**(197)**	**69**	**20**	**59**	**(10)**	**69**
2023																
Total	66	105	189	360	421	7	-	428	355	(98)	(189)	68	28	50	(10)	68

(1) Loans to customers and customer deposits include trading assets and trading liabilities respectively and excludes reverse repos and repos.

- The net customer funding surplus increased by £1 billion during 2024 to £69 billion driven by a £11 billion increase in deposits and a £10 billion increase in loans to customers.
- The customer deposit mix was broadly similar to 2023, with additional prudence applied to customer account depositor behavioural assumptions.

Encumbrance (audited)

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

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

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

Capital, liquidity and funding risk continued

Balance sheet encumbrance

The table shows the retained encumbered assets of NatWest Group.

	Encumbered as a result of transactions with counterparties other than central banks					Unencumbered assets not pre-positioned with central banks				
2024	Covered debts £bn	SFT, derivatives and other (1,2) £bn	Total £bn	Pre-positioned & encumbered assets held at central banks £bn	Collateral ring-fenced to meet regulatory requirement £bn	Readily available £bn	Other available (3) £bn	Cannot be used (4) £bn	Total £bn	Total (5) £bn
Cash and balances at central banks	-	5.1	5.1	-	-	87.9	-	-	87.9	93.0
Trading assets	-	18.0	18.0	-	-	3.2	0.6	27.1	30.9	48.9
Derivatives	-	-	-	-	-	-	-	78.4	78.4	78.4
Settlement balances	-	-	-	-	-	-	-	2.1	2.1	2.1
Loans to banks - amortised cost	-	0.1	0.1	-	-	3.3	0.8	1.8	5.9	6.0
Loans to customers - amortised cost (6)	12.7	-	12.7	94.5	-	107.0	128.5	57.6	293.1	400.3
Other financial assets (7)	-	17.6	17.6	-	1.8	41.5	0.4	1.9	43.8	63.2
Intangible assets	-	-	-	-	-	-	-	7.6	7.6	7.6
Other assets	-	-	-	-	-	-	2.2	6.3	8.5	8.5
Total assets	12.7	40.8	53.5	94.5	1.8	242.9	132.5	182.8	558.2	708.0
2023										
Total assets	13.4	39.7	53.1	112.0	1.9	223.8	126.3	175.6	525.7	692.7

(1) Repos and other secured deposits, cash, coin and nostro balance held with the Bank of England as collateral against deposits and notes in circulation are included here rather than within those positioned at the central bank as they are part of normal banking operations. Securities financing transactions (SFT) include collateral given to secure derivative liabilities.
(2) Derivative cash collateral of £8.0 billion (2023 - £9.9 billion) has been included in the encumbered assets.
(3) Other assets that are capable of being encumbered are those assets on the balance sheet that are available for funding and collateral purposes but are not readily realisable in their current form. These assets include loans that could be pre-positioned with central banks but have not been subject to internal and external documentation review and diligence work.
(4) Cannot be used includes:
a) Derivatives, reverse repurchase agreements and trading related settlement balances.
b) Non-financial assets such as intangibles, prepayments and deferred tax.
c) Loans that are not encumbered and cannot be pre-positioned with central banks on criteria set by the central banks, including those relating to date of origination and level of documentation.
d) Non-recourse invoice financing balances and certain shipping loans whose terms and structure prohibit their use as collateral.
(5) In accordance with market practice, NatWest Group employs securities recognised on the balance sheet, and securities received under reverse repo transactions as collateral for repos.
(6) The pre-positioned and encumbered assets held at central banks of £94.5 billion includes the encumbered residential mortgages of £19.0 billion. £91.8 billion of residential UK mortgages are included in £107.0 billion readily available loans to customers.
(7) Other financial assets under SFT, derivatives and other include £0.5 billion of debt securities under the continuing control of NWB Plc. This follows the agreement between NWB Plc and the Group Pension Fund to establish a bankruptcy remote reservoir trust to hold these assets. Refer to Note 5 for additional information.

Market risk

NatWest Group is exposed to non-traded market risk through its banking activities and to traded market risk through its trading activities. Non-traded and traded market risk exposures are managed and discussed separately. The non-traded market risk section begins below. The traded market risk section begins on page 260. Pension-related activities also give rise to market risk. Refer to page 265 for more information on risk related to pensions.

Non-traded market risk

Definition (audited)

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

Sources of risk (audited)

Non-traded market risk exists in all balance-sheet exposure that makes reference to market risk factors, when customer behaviour could impact the size and timing of the repricing or maturity of future cash flows, or when valuation of assets and liabilities is driven by market risk factors such as interest rates or foreign exchange rates.

The key sources of non-traded market risk are interest rate risk, credit spread risk, foreign exchange risk, equity risk and accounting volatility risk. Qualitative and quantitative information on these risk types is provided following the VaR table below.

Key developments in 2024

- In the UK, the Bank of England base rate fell to 4.75% at 31 December 2024 from 5.25% at 31 December 2023 as inflation pressures eased. However, the five-year sterling overnight index interest rate swap rate rose to 4.04% at 31 December 2024 from 3.38% at 31 December 2023. The corresponding ten-year rate also rose to 4.09% from 3.29%. The movement in swap rates reflects market expectations about the level of the UK base rate in the medium term, with expectations for the UK base rate being slightly higher at 31 December 2024 than at 31 December 2023.
- Overall, total non-traded market risk VaR decreased in 2024, on both an average and period-end basis. Interest rate VaR fell during most of 2024, reflecting action taken to manage down interest rate repricing mismatches across customer products. Credit spread VaR increased significantly in H2 2023 and continued to rise on average into 2024 due to relatively stable higher bond holdings in the liquidity portfolio throughout 2024.

  NatWest Group's structural hedge notional decreased to £194 billion at 31 December 2024 from £207 billion at 31 December 2023. reflecting changes in the mix of the deposit base, including increased fixed-term deposits. Higher swap rates were reflected in a higher yield on the structural hedge, which rose to 1.77% in 2024 from 1.47% in 2023.
- The sensitivity of net interest earnings to a 25-basis-point upward shift in the yield curve was a cumulative £739 million over three years at 31 December 2024, compared to £760 million at 31 December 2023. The main contributors to the sensitivity were managed margin deposits, including instant access savings and unhedged current accounts, and the structural hedge.
- Sterling weakened against the US dollar, to 1.25 at 31 December 2024 compared to 1.27 at 31 December 2023. It strengthened against the euro, to 1.20 at 31 December 2024 compared to 1.15 at 31 December 2023. Net investments in foreign operations increased by £0.2 billion in sterling-equivalent terms over the year. After hedging, residual structural foreign currency exposures were also higher, increasing, in sterling equivalent terms, by £0.2 billion.

Governance (audited)

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

Non-traded market risk policy sets out the governance and risk management framework.

Risk appetite

Non-traded market risk appetite is approved by the Board. NatWest Group's qualitative appetite is set out in the non-traded market risk appetite statement.

Its quantitative appetite is expressed in terms of value-at-risk (VaR), stressed value-at-risk (SVaR), sensitivity and stress limits, and earnings-at-risk limits. The limits are reviewed to reflect changes in risk appetite, business plans, portfolio composition and the market and economic environments. To ensure approved limits are not breached and that NatWest Group remains within its risk appetite, triggers have been set and are actively managed.

The risk appetite statements and associated measures are reviewed and approved at least annually by the Board on the Board Risk Committee's recommendation to ensure they remain appropriate and aligned to strategy. For further information on risk appetite and risk controls, refer to pages 175 and 176. Performance against risk appetite is reported regularly to the Executive Risk Committee, the Board Risk Committee, and the Board. Relevant non-traded market risk matters are escalated through the Executive Risk Committee and Board Risk Committee and to the Board as applicable. For more information, refer to the Governance and Remuneration section.

Market risk continued

Risk measurement

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

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

NatWest Group's VaR metrics are explained on page 262. Each of the key risk types are discussed in greater detail in their individual sub-sections following this table.

	2024				2023			
	Average £m	Maximum £m	Minimum £m	Period end £m	Average £m	Maximum £m	Minimum £m	Period end £m
Interest rate	17.2	28.2	4.0	4.0	38.0	63.2	24.6	24.6
Credit spread	51.8	60.2	45.3	48.4	33.1	54.2	20.9	54.2
Structural foreign exchange rate	7.6	9.8	5.1	6.3	11.2	13.6	8.4	12.1
Equity	8.6	10.3	7.6	7.7	14.2	19.0	10.4	10.4
Pipeline risk (1)	8.5	17.3	3.4	6.1	3.3	7.1	1.4	7.1
Diversification (2)	(35.3)			(23.4)	(34.4)			(29.9)
Total	58.4	73.8	49.1	49.1	65.4	83.4	52.1	78.5

(1) Pipeline risk is the risk of loss arising from personal customers owning an option to draw down a loan – typically a mortgage – at a committed rate, where interest rate changes may result in greater or fewer customers than anticipated taking up the committed offer.
(2) NatWest Group benefits from diversification across various financial instrument types, currencies and markets. The extent of the diversification benefit depends on the correlation between the assets and risk factors in the portfolio at a particular time. The diversification factor is the sum of the VaR on individual risk types less the total portfolio VaR.

- Overall, total non-traded market risk VaR decreased in 2024, on both an average and period-end basis.
- Interest rate VaR fell during most of 2024, reflecting action taken to manage down interest rate repricing mismatches across customer products.
- Credit spread VaR increased significantly in H2 2023, continuing to rise on average into 2024 due to relatively stable higher bond holdings in the liquidity portfolio throughout 2024.
- Pipeline VaR increased on an average basis, reflecting small changes in the approach to mortgage pipeline risk management during the year which were complete by year-end.

Market risk continued

Interest rate risk

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

NTIRR comprises the following three primary risk types:

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

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

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

Structural hedging

NatWest Group has a significant pool of stable, non and low interest-bearing liabilities, principally comprising current accounts and savings, in addition to its equity and reserves. A proportion of these balances are hedged, either by offsetting the positions against fixed-rate assets (such as fixed-rate mortgages) or by hedging positions externally using interest rate swaps, which are generally booked as cash-flow hedges of floating-rate assets, in order to reduce income volatility and provide a revenue stream in net interest income. (Further details on NatWest Group's cash-flow hedge accounting programme can be found in Note 13 in the Notes to the accounts.) Hence, the structural hedge is one component of a larger interest rate risk management programme.

After offsetting or hedging the interest rate exposure, NatWest Group attributes income to equity or products in structural hedges by reference to the relevant interest rate swap curve. Over time, this approach has provided a basis for stable income attribution for management purposes to products and interest rate returns. The programme aims to track a time series of medium-term swap rates, but the yield will be affected by changes in product volumes and NatWest Group's equity capital.

The table below shows incremental income, hedge income, the period-end and average notional balances attributed to the structural hedge, and the total yield. These are analysed between equity and products. Hedge income represents the fixed leg of the hedge, while incremental income represents the difference between hedge income and short-term cash rates. For example, the sterling overnight index average (SONIA) is used to estimate incremental income from sterling structural hedges.

2024	Incremental income £m	Hedge income £m	Period end notional £bn	Average notional £bn	Total yield %
Equity	**(694)**	**440**	**22**	**22**	**1.98**
Product	**(5,806)**	**3,039**	**172**	**174**	**1.75**
Total	**(6,500)**	**3,479**	**194**	**196**	**1.77**
2023					
Equity	(611)	418	22	22	1.87
Product	(6,321)	2,822	185	199	1.42
Total	(6,932)	3,240	207	221	1.47

Equity structural hedges refer to income allocated primarily to equity and reserves. At 31 December 2024, the equity structural hedge notional was allocated between NWH Group and NWM Group in a ratio of approximately 79%/21% respectively.

Product structural hedges refer to income allocated to customer products by NWH Group Treasury, mainly current account and savings balances in Commercial & Institutional, Retail Banking and Private Banking.

At 31 December 2024, approximately 93% by notional of total structural hedges were sterling-denominated.

- The structural hedge period-end notional fell £13 billion, reflecting changes in the mix of the deposit base, including increased fixed-term deposits.
- The five-year sterling swap rate rose to 4.04% at 31 December 2024 from 3.38% at 31 December 2023. The ten-year sterling swap rate also rose, to 4.09% from 3.29%. The structural hedge yield rose to 1.77% in 2024 from 1.47% in 2023.
- Hedge income rose by £239 million to £3,479 million from £3,240 million. Incremental income remained negative but fell year on year. This was mainly driven by the lower hedge notional despite a higher SONIA rate in 2024 compared to 2023.
- Incremental income represents the additional income an unhedged portfolio would earn from short-term cash rates. If the UK base rate were to fall, the difference between incremental income and total income would continue to fall.

Market risk continued

Interest rate risk measurement

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

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

These two approaches provide complementary views of the impact of interest rate risk on the balance sheet at a point in time. The scenarios employed in the net interest earnings sensitivity approach may incorporate assumptions about how NatWest Group and its customers will respond to a change in the level of interest rates.

In contrast, the VaR approach measures the sensitivity of the balance sheet at a point in time. Capturing all cash flows, VaR also highlights the impact of duration and repricing risks beyond the one-to-three-year period shown in earnings sensitivity calculations.

Value-at-risk

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

NatWest Group's standard VaR metrics – which assume a time horizon of one trading day and a confidence level of 99% – are based on interest rate repricing gaps at the reporting date.

Daily rate moves are modelled using observations from the last 500 business days. These incorporate customer products plus associated funding and hedging transactions as well as non-financial assets and liabilities. Behavioural assumptions are applied as appropriate.

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

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

Sensitivity of net interest earnings

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

Earnings sensitivity is derived from a market-implied forward rate curve, which will incorporate expected changes in central bank policy rates such as the Bank of England base rate.

A simple scenario is shown that projects forward earnings based on the 31 December 2024 balance sheet, which is assumed to remain constant. An earnings projection is derived from the market-implied curve, which is then subjected to interest rate shocks.

The difference between the market-implied projection and the shock gives an indication of underlying sensitivity to interest rate movements.

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

Three-year 25-basis-point sensitivity table

The table below shows the sensitivity of net interest earnings – for both structural hedges and managed rate accounts – on a one, two and three-year forward-looking basis to an upward or downward interest rate shift of 25 basis points. In all scenarios, yield curves are assumed to move in parallel.

	+25 basis points upward shift			-25 basis points downward shift		
	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
2024	£m	£m	£m	£m	£m	£m
Structural hedges	**41**	**125**	**212**	**(41)**	**(125)**	**(212)**
Managed margin	**121**	**116**	**124**	**(142)**	**(120)**	**(125)**
Total	**162**	**241**	**336**	**(183)**	**(245)**	**(337)**
2023						
Structural hedges	44	138	227	(44)	(138)	(227)
Managed margin	120	117	114	(125)	(121)	(105)
Total	164	255	341	(169)	(259)	(332)

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

– The sensitivity of net interest earnings in all scenarios mainly reflects managed-margin deposits and the impact of higher or lower rates on structural hedge income.

Market risk continued

One-year 25 and 100-basis-point sensitivity table

The following table presents the one-year sensitivity to upward and downward 25-basis-point and 100-basis-point shifts in the yield curve, analysed by currency.

	2024				2023			
	Shifts in yield curve				Shifts in yield curve			
	+25 basis points	**-25 basis points**	**+100 basis points**	**-100 basis points**	+25 basis points	-25 basis points	+100 basis points	-100 basis points
	£m	**£m**	**£m**	**£m**	£m	£m		£m
Euro	**11**	**(7)**	**38**	**(43)**	7	(11)	38	(45)
Sterling	**131**	**(155)**	**531**	**(646)**	138	(139)	504	(577)
US dollar	**15**	**(16)**	**63**	**(71)**	14	(14)	54	(56)
Other	**5**	**(5)**	**19**	**(17)**	5	(5)	21	(22)
Total	**162**	**(183)**	**651**	**(777)**	164	(169)	617	(700)

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

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

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

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

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

	2024				2023			
	+25 basis points	**-25 basis points**	**+100 basis points**	**-100 basis points**	+25 basis points	-25 basis points	+100 basis points	-100 basis points
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
FVOCI reserves	**(9)**	**9**	**(38)**	**31**	(1)	1	(10)	(1)
Cash flow hedge reserves	**(244)**	**249**	**(946)**	**1,027**	(251)	254	(981)	1,041
Total	**(253)**	**258**	**(984)**	**1,058**	(252)	255	(991)	1,040

- The sensitivity of FVOCI and cash flow hedge reserves was broadly stable in 2024 compared to 2023. The movement in cash flow hedge reserves in 2024 is shown in the statement of changes in equity on pages 296 to 298.

Market risk continued

Credit spread risk

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

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

Credit spread risk is monitored daily through sensitivities and VaR measures (refer to the non-traded market risk VaR table earlier in this section). Exposures and limit utilisations are reported to senior management on a regular basis. Dealing mandates in place for the bond portfolios further mitigate the risk by imposing constraints by duration, asset class and credit rating.

Foreign exchange risk

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

- **Structural foreign exchange rate risk** – mainly arises from the capital deployed in foreign subsidiaries and branches.
- **Transactional foreign exchange rate risk** – arises from customer transactions and profits and losses that are in a currency other than the functional currency.
- **Forecast earnings or costs in foreign currencies** – NatWest Group assesses its potential exposure to forecast foreign currency income and expenses. NatWest Group hedges forward some forecast expenses.

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

The sensitivity of this ratio to exchange rates is monitored monthly and reported to the Asset & Liability Management Committee at least quarterly. Foreign exchange exposures arising from customer transactions are hedged by businesses on a regular basis in line with NatWest Group policy.

The table below shows structural foreign currency exposures.

2024	Net investments in foreign operations £m	Net investment hedges £m	Structural foreign currency exposures pre-economic hedges £m	Economic hedges (1) £m	Residual structural foreign currency exposures £m
US dollar	**1,826**	**(598)**	**1,228**	**(1,228)**	**-**
Euro	**4,162**	**(2,351)**	**1,811**	**-**	**1,811**
Other non-sterling	**874**	**(372)**	**502**		**502**
Total	**6,862**	**(3,321)**	**3,541**	**(1,228)**	**2,313**
2023					
US dollar	1,185	(228)	957	(957)	-
Euro	4,475	(2,585)	1,890	-	1,890
Other non-sterling	963	(429)	534	-	534
Total	6,623	(3,242)	3,381	(957)	2,424

(1) Economic hedges of US dollar net investments in foreign operations represent US dollar AT1 equity securities that do not qualify as net investment hedges for accounting purposes. They provide an offset to structural foreign exchange exposures to the extent that there are net assets in overseas operations available, but they are accounted for at historical cost under IFRS until redemption.

- Changes in foreign currency exchange rates affect equity in proportion to structural foreign currency exposure pre economic hedges. For example, a 5% strengthening or weakening in foreign currencies against sterling would result in a gain or loss of £0.2 billion in equity, respectively.

Market risk continued

Equity risk (audited)

Non-traded equity risk is the potential variation in income and reserves arising from changes in equity valuations. Equity positions are carried on the balance sheet at fair value based on market prices where available. Equity positions may take the form of shares that are publicly listed on a recognised exchange, such as NatWest Group's investment in Permanent TSB, privately owned investments and shareholdings in industry participations including SWIFT. Further disclosure of NatWest Group's investments in equity shareholdings, fair value gains and losses and valuation techniques may be found in the notes to the consolidated financial statements.

Investments, acquisitions or disposals of a strategic nature are referred to the Acquisitions & Disposals Committee. Once approved by the CFO with support from the Acquisitions & Disposals Committee for execution, such transactions are referred for approval to the Board, the Executive Committee, the Chief Executive, the Chief Financial Officer or as otherwise required. Decisions to acquire or hold equity positions in the non-trading book that are not of a strategic nature are taken by authorised persons with delegated authority.

Non-traded equity value at risk is monitored monthly and capital allocation to the risk is included in NatWest Group's annual Internal Capital Adequacy Assessment Process (ICAAP).

Accounting volatility risk

Accounting volatility risk arises when an exposure is accounted for at amortised cost but economically hedged by a derivative that is accounted for at fair value. Although this is not an economic risk, the difference in accounting between the exposure and the hedge creates volatility in the income statement.

Accounting volatility can be mitigated through hedge accounting. However, residual volatility will remain in cases where accounting rules mean that hedge accounting is not an option, or where there is some hedge ineffectiveness. Accounting volatility risk is reported to the Asset & Liability Management Committee monthly and capitalised as part of the ICAAP.

Traded market risk

Definition (audited)

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

Sources of risk (audited)

NatWest Group is exposed to traded market risk through trading activities entered into by NatWest Markets where such risk arises from market-making activity and by facilitating customer-facing business that cannot be immediately offset with other customers or market participants. From a market risk perspective, activities are focused on rates; currencies; and traded credit. NatWest Markets undertakes transactions in financial instruments including debt securities, as well as securities financing and derivatives.

The key categories of traded market risk are interest rate risk, credit spread risk and foreign currency price risk.

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

Key developments in 2024

- The year was marked by periods of increased market volatility reflecting UK political developments, global inflationary concerns, the ongoing Russia-Ukraine conflict and geopolitical tensions in the Middle East.
- The significant volatility in Gilts, sterling swaps and inflation entered the rolling window for VaR calculation during 2024. However, traded VaR and SVaR remained within appetite and, on an average basis, at similar levels compared to 2023, aided by NatWest Group's continued disciplined approach to risk-taking.

Governance (audited)

Traded market risk policy defines the key principles and approach to managing and reporting traded market risks across NatWest Group. Responsibility for identifying, measuring, monitoring and controlling market risk arising from trading activities lies with the relevant trading business. The Market Risk function independently advises on, monitors and challenges the risk-taking activities undertaken by the trading business ensuring these are within the constraints of the market risk framework, policies, and risk appetite statements and measures.

Risk appetite

Traded market risk appetite is approved by the Board. NatWest Group's qualitative appetite for traded market risk is set out in the traded market risk appetite statement. Quantitative appetite is expressed in terms of exposure limits. The limits at NatWest Group level comprise value-at-risk (VaR), stressed value-at-risk (SVaR) and stress-testing. More details on these are provided on the following pages.

For each trading business, a document known as a dealing authority compiles details of all applicable limits and trading restrictions. The desk-level mandates comprise qualitative limits related to the product types within the scope of each desk, as well as quantitative metrics specific to the desk's market risk exposures. These additional limits and metrics aim to control various risk dimensions such as exposure size, aged inventory, currency and tenor.

The limits are reviewed to reflect changes in risk appetite, business plans, portfolio composition and the market and economic environments and recalibrated to ensure that they remain aligned to NatWest Group RWA targets. Limit reviews focus on optimising the alignment between traded market risk exposure and capital usage.

To ensure approved limits are not breached and that NatWest Group remains within its risk appetite, triggers have been set such that if exposures exceed a specified level, action plans are developed by the relevant business and the Market Risk function and implemented. The risk appetite statements and associated measures are reviewed at least annually by the Board on the Board Risk Committee's recommendation to ensure they remain appropriate and aligned to strategy.

For more detail on risk appetite and risk controls, refer to pages 175 and 176.

Market risk continued

Performance against risk appetite is reported regularly to the Executive Risk Committee, the Board Risk Committee, and the Board. Relevant traded market risk matters are escalated through the Executive Risk Committee and Board Risk Committee and to the Board as applicable. For more information, refer to the Governance and Remuneration section.

Monitoring and mitigation

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

Traded market risk exposures are monitored against limits and analysed daily. A daily report summarising the position of exposures against limits at desk, business, business segment and NatWest Group levels is provided to senior management and market risk managers across the function. Limit reporting is supplemented with regulatory capital and stress testing information as well as ad-hoc reporting.

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

Business profit and loss performance is monitored automatically through loss triggers which, if breached, require a remedial action plan to be agreed between the Market Risk function and the business. The loss triggers are set using both a fall-from-peak approach and an absolute loss level. In addition, regular updates on traded market risk positions are provided to the Executive Risk Committee, the Board Risk Committee and the Board.

Measurement

NatWest Group uses VaR, SVaR and the incremental risk charge (IRC) to capitalise traded market risk. Risks that are not adequately captured by VaR or SVaR are captured by the Risks Not In VaR (RNIV) framework to ensure that NatWest Group is adequately capitalised for market risk. In addition, stress testing is used to identify any vulnerabilities and potential losses.

The key inputs into these measurement methods are market data and risk factor sensitivities. Sensitivities refer to the changes in trade or portfolio value that result from small changes in market parameters that are subject to the market risk limit framework. Revaluation ladders are used in place of sensitivities to capture the impact of large moves in risk factors or the joint impact of two risk factors.

These methods have been designed to capture correlation effects and allow NatWest Group to form an aggregated view of its traded market risk across risk types, markets and business lines while also taking into account the characteristics of each risk type.

Value-at-risk

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

The internal VaR model – which captures all trading book positions including those products approved by the regulator – is based on a historical simulation, utilising market data from the previous 500 days, and is sensitive to recent market conditions.

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

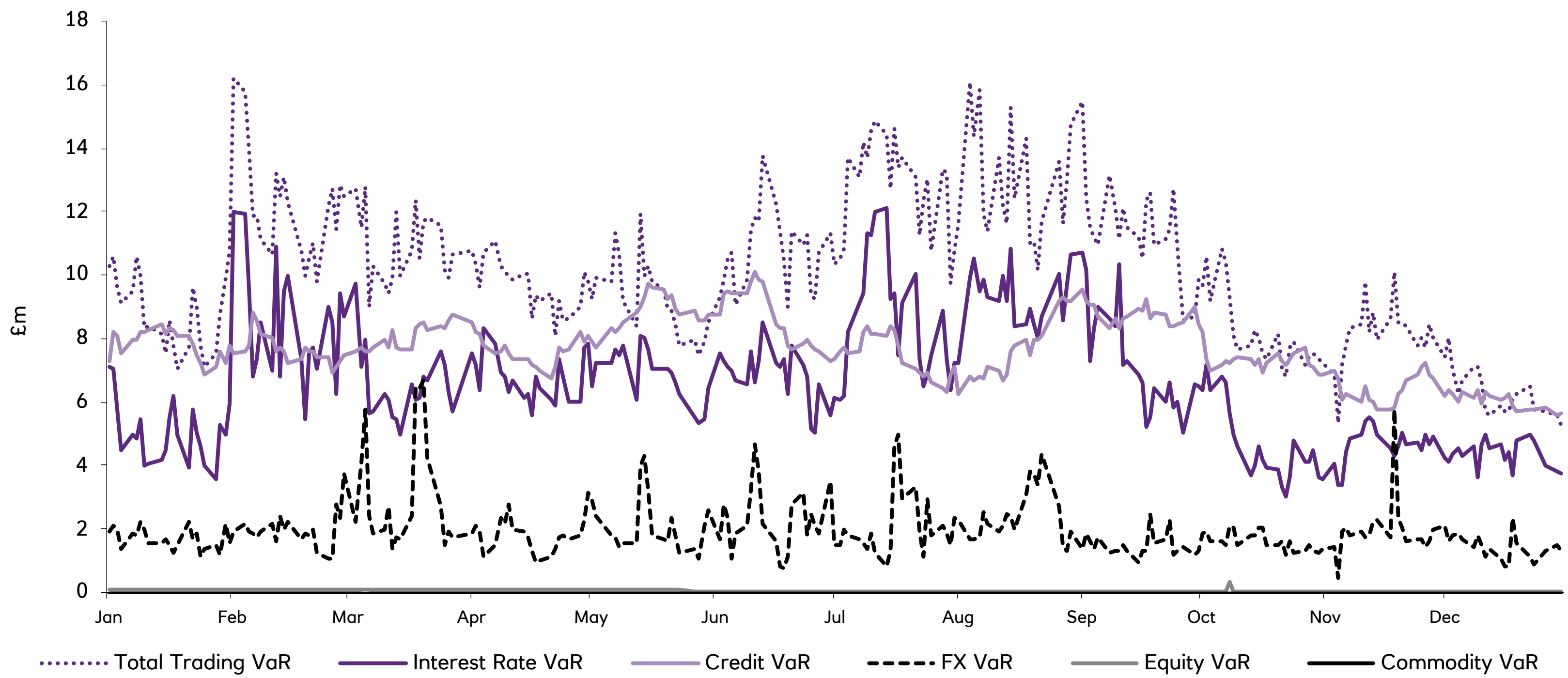
When simulating potential movements in such risk factors, a combination of absolute, relative and rescaled returns is used.

The performance and adequacy of the VaR model are tested regularly through the following processes:

- Back-testing: Internal and regulatory back-testing is conducted on a daily basis. Information on internal back-testing is provided in this section. Information on regulatory back-testing appears in the Pillar 3 Report.
- Ongoing model validation: VaR model performance is assessed both regularly, and on an ad-hoc basis, if market conditions or portfolio profile change significantly.
- Model Risk Management review: As part of the model lifecycle, all risk models (including the VaR model) are independently reviewed to ensure the model is still fit for purpose given current market conditions and portfolio profile. For further detail on the independent model validation carried out by Model Risk Management refer to page 276. More information relating to pricing and market risk models is presented in the Pillar 3 Report.

Market risk continued

One-day 99% traded internal VaR



Traded VaR (1-day 99%) (audited)

The table below shows one-day 99% internal VaR for NatWest Group's trading portfolios, split by exposure type.

	2024				2023			
	Average £m	Maximum £m	Minimum £m	Period end £m	Average £m	Maximum £m	Minimum £m	Period end £m
Interest rate	6.6	12.1	3.0	3.8	9.8	19.3	4.3	7.4
Credit spread	7.7	10.1	5.6	5.6	6.2	7.1	4.9	6.8
Currency	2.0	6.7	0.5	1.3	2.3	7.0	0.9	1.8
Equity	0.1	0.3	-	-	-	0.1	-	0.1
Diversification (1)	(6.3)			(5.4)	(7.0)			(7.2)
Total	10.1	16.2	5.3	5.3	11.3	20.0	6.6	8.9

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

- On an average basis, traded VaR remained at similar levels in 2024 compared to 2023.
- The decrease in average total traded VaR and interest rate VaR, compared to 2023, reflected the decrease in curve risk in sterling and euro flow trading.

Market risk continued

VaR back-testing

The main approach employed to assess the VaR model's ongoing performance is back-testing, which counts the number of days when a loss exceeds the corresponding daily VaR estimate, measured at a 99% confidence level.

Two types of profit and loss (P&L) are used in back-testing comparisons: Actual P&L and Hypothetical P&L. For more details on the back-testing approach, refer to the Pillar 3 Report.

The table below shows internal back-testing exceptions in the major NatWest Markets businesses for the 250-business-day period to 31 December 2024. Internal back-testing compares one-day 99% traded internal VaR with Actual and Hypothetical (Hypo) P&L.

	Back-testing exceptions	
	Actual	Hypo
Rates	-	-
Currencies	-	3
Credit	-	-
xVA	-	-

– The back-testing exceptions were driven by losses in Currencies in February, July and December 2024 due to increased foreign exchange and rates market volatility.

Stressed VaR (SVaR)

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

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

This is in contrast with VaR, which is based on a rolling 500-day historical data set. A time horizon of ten trading days is assumed with a confidence level of 99%.

The internal traded SVaR model captures all trading book positions.

	2024				2023			
	Average £m	Maximum £m	Minimum £m	Period end £m	Average £m	Maximum £m	Minimum £m	Period end £m
Total internal traded SVaR	56	136	31	41	56	140	28	36

– Traded SVaR, on an average basis, remained at similar levels in 2024 compared to 2023.

Risks not in VaR (RNIVs)

The RNIV framework is used to identify and quantify market risks that are not fully captured by the internal VaR and SVaR models.

RNIV calculations form an integral part of ongoing model and data improvement efforts to capture all market risks in scope for model approval in VaR and SVaR.

For further qualitative and quantitative disclosures on RNIVs, refer to the Market risk section of the Pillar 3 Report.

Stress testing

For information on stress testing, refer to page 177.

Incremental risk charge (IRC)

The IRC model quantifies the impact of rating migration and default events on the market value of instruments with embedded credit risk (in particular, bonds and credit default swaps) held in the trading book. It further captures basis risk between different instruments, maturities and reference entities. For further qualitative and quantitative disclosures on the IRC, refer to the Market risk section of the Pillar 3 Report.

Market risk continued

Market risk – linkage to balance sheet

The table below analyses NatWest Group's balance sheet by non-trading and trading business.

	2024			2023			
	Total £bn	Non-trading business (1) £bn	Trading business (2) £bn	Total £bn	Non-trading business (1) £bn	Trading business (2) £bn	Primary market risk factor
Assets							
Cash and balances at central banks	93.0	93.0	-	104.3	104.3	-	Interest rate
Trading assets	48.9	0.3	48.6	45.6	0.8	44.8	
Reverse repos	27.1	-	27.1	23.7	-	23.7	Interest rate
Securities	13.9	-	13.9	12.0	-	12.0	Interest rate, credit spreads, equity
Other	7.9	0.3	7.6	9.9	0.8	9.1	Interest rate
Derivatives	78.4	1.4	77.0	78.9	1.0	77.9	Interest rate, credit spreads, equity
Settlement balances	2.1	0.1	2.0	7.2	0.9	6.3	Settlement
Loans to banks	6.0	6.0	-	6.9	6.8	0.1	Interest rate
Loans to customers	400.3	400.3	-	381.4	381.4	-	Interest rate
Other financial assets	63.2	63.2	-	51.1	51.1	-	Interest rate, credit spreads, equity
Intangible assets	7.6	7.6	-	7.6	7.6	-	Interest rate, credit spreads, equity
Other assets	8.5	8.5	-	9.7	9.7	-	
Total assets	708.0	580.4	127.6	692.7	563.6	129.1	
Liabilities							
Bank deposits	31.5	31.5	-	22.2	22.2	-	Interest rate
Customer deposits	433.5	433.5	-	431.4	431.4	-	Interest rate
Settlement balances	1.7	-	1.7	6.6	-	6.6	Settlement
Trading liabilities	54.7	0.2	54.5	53.6	-	53.6	
Repos	30.6	-	30.6	26.9	-	26.9	Interest rate
Short positions	10.5	-	10.5	9.8	-	9.8	Interest rate, credit spreads
Other	13.6	0.2	13.4	16.9	-	16.9	Interest rate
Derivatives	72.1	1.0	71.1	72.4	1.2	71.2	Interest rate, credit spreads
Other financial liabilities	61.1	61.1	-	55.1	55.0	0.1	Interest rate
Subordinated liabilities	6.1	6.1	-	5.7	5.7	-	Interest rate
Notes in circulation	3.3	3.3	-	3.2	3.2	-	Interest rate
Other liabilities	4.6	4.6	-	5.3	5.3	-	
Total liabilities	668.6	541.3	127.3	655.5	524.0	131.5	

(1) Non-trading businesses are entities that primarily have exposures that are not classified as trading book. For these exposures, with the exception of pension-related activities, the main measurement methods are sensitivity analysis of net interest income, internal non-traded market risk VaR and fair value calculations. For more information refer to the non-traded market risk section.
(2) Trading businesses are entities that primarily have exposures that are classified as trading book under regulatory rules. For these exposures, the main methods used by NatWest Group to measure market risk are detailed in the traded market risk section.
(3) Foreign exchange risk affects all non-sterling denominated exposures on the balance sheet across trading and non-trading businesses, and therefore has not been listed in the above tables.

Pension risk

Definition

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

Sources of risk

NatWest Group has exposure to pension risk through its defined benefit schemes worldwide. The Main section of The NatWest Group Pension Fund (the Main section) is the largest source of pension risk with £29.5 billion of assets and £24.5 billion of liabilities at 31 December 2024 (2023 – £33.6 billion of assets and £26.5 billion of liabilities). Refer to Note 5 to the consolidated financial statements, for further details on NatWest Group's pension obligations, including sensitivities to the main risk factors.

Pension scheme liabilities vary with changes in long-term interest rates and inflation as well as with pensionable salaries, the longevity of scheme members and legislation.

During 2024, the Trustee of NatWest Group's largest scheme (the Main section of the NatWest Group Pension Fund) completed buy-in transactions with a third-party insurer (buy-in asset valued at £8.0 billion under IAS 19, covering around a third of the defined benefit obligation attributable to the Main section). Under the buy-in insurance contracts, the insurer makes payments to the scheme to cover pension benefits paid to members. As a result, the insured portion of the scheme is protected against all material longevity and investment risks.

These risks have been replaced with the risk that the insurer defaults on payments due to the scheme. The uninsured scheme assets continue to vary with changes in interest rates, inflation expectations, credit spreads, exchange rates, and equity and property prices. NatWest Group is therefore still exposed to the risk that the schemes' assets, together with future returns and additional future contributions, are estimated to be insufficient to meet liabilities as they fall due.

In such circumstances, NatWest Group could be obliged (or might choose) to make additional contributions to the schemes or be required to hold additional capital to mitigate this risk.

During 2024, the Court of Appeal upheld the initial High Court ruling in respect of Virgin Media v NTL Pension Trustees II Limited (and others), calling into question the validity of rule amendments made to defined benefit pension schemes contracted-out on a Reference Scheme Test basis between 6 April 1997 and 5 April 2016. Amendments to these pension schemes over this time required confirmation from the Scheme Actuary that the Reference Scheme Test would continue to be met. In the absence of such a confirmation, the Rule amendment would be void. There were no other developments on this matter as further disclosed in Note 5 to the consolidated financial statements since last year and it will be kept under review.

Key developments in 2024

– As mentioned previously, during the year, the Trustee of the Main section of the NatWest Group Pension Fund completed partial buy-in transactions, passing longevity and investment risk for the insured portion of the scheme to an insurer.
– The 31 December 2023 triennial valuation for the Main section was completed during 2024 with no requirement for any deficit contributions. Given the strong funding level, it was also agreed that employer future service contributions would cease from 1 January 2025. Contributions in respect of administrative expenses will continue.

Governance

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

Risk appetite

Pension risk appetite is approved by the Board. NatWest Group maintains an independent view of the risk inherent in its pension funds. NatWest Group has a pension risk appetite statement incorporating defined metrics against which risk is measured that is reviewed and approved at least annually by the Board on the Board Risk Committee's recommendation to ensure they remain appropriate and aligned to strategy. Policies and standards are in place to provide formal controls for pension risk reporting, modelling, governance and stress testing. A pension risk policy, which sits within the enterprise-wide risk management framework, is also in place and is subject to associated framework controls.

Performance against risk appetite is reported regularly to the Executive Risk Committee, the Board Risk Committee, and the Board. Relevant pension risk matters are escalated through the Executive Risk Committee, Asset & Liability Management Committee and Board Risk Committee as appropriate and to the Board as applicable. For more information, refer to the Governance and remuneration section.

Monitoring and measurement

Pension risk is monitored by the Executive Risk Committee and the Board Risk Committee, whilst the Asset & Liability Management Committee receives updates on the performance of NatWest Group's material pension funds. Relevant pension risk matters are escalated to the Board as applicable. NatWest Group also undertakes stress tests on its material defined benefit pension schemes each year.

These tests are also used to satisfy the requests of regulatory bodies such as the Bank of England. The stress testing framework includes pension risk capital calculations for the purposes of the Internal Capital Adequacy Assessment Process as well as additional stress tests for a number of internal management purposes.

Pension risk continued

The results of the stress tests and their consequential impact on NatWest Group's balance sheet, income statement and capital position are incorporated into the overall NatWest Group stress test results. NatWest Bank Plc (a subsidiary of NatWest Group) is the principal employer of the Main section and could be required to fund any deficit that arises. The financial strength of the third-party insurer is monitored on a periodic basis by the Trustee and NatWest Group.

Mitigation

The Main section is now well-protected against interest rate and inflation risks following risk mitigation measures taken by the Trustee in recent years. This includes buy-in transactions completed during 2024, resulting in a low investment risk for the scheme.

If, in an extreme scenario, the insurer was unable to make payments due to the scheme under the buy-in insurance contracts, NatWest Group would continue to be responsible for financially supporting the scheme to meet pension benefits. However, there are strong mitigations in place against this risk, in particular the insurance regulatory regime.

The potential impact of climate change is one of the factors considered in managing the assets of the Main section. The Trustee monitors the risk to its investments from changes in the global economy and invests, where return justifies the risk, in sectors that reduce the world's reliance on fossil fuels, or that may otherwise promote environmental benefits.

Further details regarding the Main section Trustee's approach to managing climate change risk can be found in its Responsible Ownership Policy, its net zero commitment and its climate disclosures produced on an annual basis, as required by The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021.

Compliance and conduct risk

Definition

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

Conduct risk is the risk of inappropriate behaviour towards customers, or in the markets in which NatWest Group operates, which leads to poor or inappropriate customer outcomes. The consequences of failing to meet compliance and/or conduct responsibilities can be significant and could result, for example, in legal action, regulatory enforcement, material financial loss and/or reputational damage.

Sources of risk

Compliance and conduct risks exist across all stages of NatWest Group's relationships with its customers and arise from a variety of activities including product design, marketing and sales, complaint handling, staff training, and handling of confidential inside information.

As set out in Note 25 to the consolidated financial statements, members of NatWest Group are party to legal proceedings and are subject to investigation and other regulatory action in the UK, the US and other jurisdictions.

Key developments in 2024

- Further enhancements were made to the compliance and conduct framework, with the risk toolkits, risk standards and regulatory compliance operational policy framework being embedded throughout the year. Business areas also completed self-assessments against the Conduct Risk policy and Regulatory Compliance Risk policy to ensure risks are being measured and managed accurately and effectively.
-
- The NatWest Group-wide programme continued to make significant progress, with the second phase of Consumer Duty rules having come into force on 31 July 2024. Activity is now centred around embedding the requirements of the Duty, utilising improved data and analysis for reporting on good customer outcomes, and ensuring a consistent NatWest Group-wide approach to customer communications.
- In line with a NWM plea agreement with the US Department of Justice (DoJ) regarding historical spoofing conduct by former employees, an independent monitor was appointed in 2022. Now into the second year of the Monitorship, work continues to implement the enhancements recommended by the Monitor.
- The FCA Access To Cash Sourcebook (ATCS) was published in July 2024, with an implementation date of 18 September 2024. Following its publication, the branch closure programme paused its ongoing closures to conduct a comprehensive assessment of cash access services in any affected local areas. This included notifying impacted customers and, where necessary, completing additional actions before the closures took effect. Future proposed closures will be evaluated in accordance with ATCS requirements.

Governance

NatWest Group defines appropriate standards of compliance and conduct and ensures adherence to those standards through its risk management framework.

To support ongoing oversight of the management of the compliance and conduct risk profile, there are a number of committees in place. These include a Consumer Duty Executive Steering Group and conflicts of interest meetings across both the first and second lines of defence.

Risk appetite

Regulatory compliance risk appetite and conduct risk appetite are approved by the Board. The risk appetite statement and associated measures for Compliance and Conduct risks are reviewed and approved at least annually by the Board on the Board Risk Committee's recommendation to ensure they remain appropriate and aligned to strategy.

Risk appetite statements articulate the levels of risk that legal entities, businesses and functions work within when pursuing their strategic objectives and business plans.

A range of controls is operated to ensure the business delivers good customer outcomes and is conducted in accordance with legal and regulatory requirements. A suite of risk policies, risk standards and regulatory compliance operational policies addressing compliance and conduct risks set appropriate standards across NatWest Group.

Examples of these include those relating to product mis-selling, customers in vulnerable situations, complaints management, cross-border activities and market abuse. Continuous monitoring and targeted assurance are carried out as appropriate.

Performance against risk appetite is reported regularly to the Executive Risk Committee, the Board Risk Committee and the Board. Relevant compliance and conduct risk matters are escalated through the Executive Risk Committee and Board Risk Committee and to the Board as applicable. For more information, refer to the Governance and remuneration section.

Monitoring and measurement

Compliance and conduct risks are measured and managed through continuous assessment and regular reporting to NatWest Group's senior risk committees and at Board level. The compliance and conduct risk framework facilitates the consistent monitoring and measurement of compliance with laws and regulations and the delivery of consistently good customer outcomes.

The first line of defence is responsible for effective risk identification, reporting and monitoring, with oversight, challenge and review by the second line. Compliance and conduct risk management is also integrated into NatWest Group's strategic planning cycle.

Mitigation

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

Financial crime risk

Definition

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

Sources of risk

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

Key developments in 2024

- Continued significant investment was made to support the delivery of a multi-year transformation plan across financial crime risk management.
- Enhancements were made to technology, data quality, and data analytics to improve the effectiveness of systems used to monitor customers and transactions.
- Financial crime roadshows and events were held throughout the year to further embed financial crime risk management culture and behaviours.
- There was active participation in public/private partnerships including the Joint Money Laundering Intelligence Taskforce and Data Fusion. In 2024, NatWest Group (together with seven other UK Banks) shared datasets with the National Crime Agency (NCA) and seconded staff to the NCA to form a joint public/private intelligence team to work on the resulting risks identified, for reporting to law enforcement. This is a joint project, governed equally by the banks and the NCA, that has directly advanced high priority organised crime investigations and identified new criminal networks exploiting the UK's financial system.

Governance

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

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

Risk appetite

Financial crime risk appetite is approved by the Board. The risk appetite statements and associated measures for financial crime risk are reviewed and approved at least annually by the Board on the Board Risk Committee's recommendation to ensure they remain appropriate and aligned to strategy.

There is no appetite to operate in an environment where systems and controls do not enable the effective identification, assessment, monitoring, management and mitigation of financial crime risk.

NatWest Group's systems and controls must be comprehensive and proportionate to the nature, scale and complexity of its businesses.

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

Performance against risk appetite is reported regularly to the Executive Risk Committee, the Board Risk Committee, and the Board. Relevant financial crime risk matters are escalated through the Executive Risk Committee and Board Risk Committee and to the Board as applicable. For more information, refer to the Governance and remuneration section.

Monitoring and measurement

Financial crime risks are identified and reported through continuous risk management and regular reporting to senior risk committees and the Board Risk Committee. Quantitative and qualitative data is reviewed and assessed to measure whether financial crime risk is within risk appetite.

Mitigation

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

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

Climate and nature risk

Definition

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

Sources of risk

Physical risks may arise from climate events such as heatwaves, droughts, floods, storms and nature-related events such as land or air pollution. They can potentially result in financial losses, impairing asset values and the creditworthiness of borrowers. NatWest Group could be exposed to physical risks directly by the effects on its property portfolio and, indirectly, by the impacts on the wider economy as well as on the property, business interests and supply chains of its customers.

Transition risks may arise from the process of adjustment towards a low-carbon, nature restored economy. Changes in policy, technology and sentiment could prompt reassessment of customers' financial risk and may lead to falls in the value of a large range of assets. NatWest Group could be exposed to transition risks directly through the costs of adaptation of its own operations as well as supply chain disruption leading to financial impacts. Potential indirect effects include the impact on the wider economy, including on customers, which may erode NatWest Group's competitiveness and profitability, as well as threaten reputational damage.

Liability risks may arise should stakeholders consider NatWest Group's climate and nature risk management practices and disclosures insufficient, and responsible for or attributable to, stakeholders' losses. On the other hand, liability risks may also arise where some jurisdictions believe financial institutions have taken their sustainability-related initiatives too far, with some imposing sanctions in these circumstances.

As climate and nature risk is both a principal risk within NatWest Group's EWRMF, and a cross cutting risk, which impacts other principal risks, NatWest Group periodically refreshes its assessment of the relative impact of climate-related risk factors to other principal risks, where NatWest Group's exposure to a principal risk could be taken outside of appetite due to climate-related risk factors. In identifying climate-related risks and opportunities to NatWest Group, the period in which each is likely to occur, was assessed. Risks and opportunities deemed material to the five-year financial planning cycle were viewed as short-term. Aligned with the guidance of the Science Based Targets initiative for financial institutions, long-term was defined as beyond 15 years, while medium-term was defined as within the next five to 15 years[(1)].

The outcome of the latest assessment of the relative impact of climate-related risk factors to other principal risks is included in the table that follows. All principal risks in the table were identified as potentially impacted by climate risk, over short, medium and long-term time horizons.

Risk type	Risks to NatWest Group	Drivers	Identification and assessment
Credit risk	From the adverse impact on future credit worthiness of customers due to climate change risk factors impacting asset valuation, income and costs, for example, from increased flooding events. Mitigants include the use of operational limits in the residential mortgage portfolio (refer to page 60 of the NatWest Group plc 2024 Sustainability Report for more details) and the inclusion of climate considerations in sector strategy within the commercial portfolio.	Physical: acute, chronic[(2)] Transition: government policy and legislation, market, technology, reputation	Scenario analysis Portfolio level assessments Transaction level assessments
Compliance risk	Due to the need for NatWest Group to 'observe the letter and spirit' of all applicable laws and regulations relating to climate. Mitigants include the introduction of an environmental, social and governance regulatory compliance operational policy to give guidance on relevant regulatory expectations.	Physical: acute, chronic[(2)] Transition: government policy and legislation, market, technology, reputation Liability: greenwashing	Transaction level assessments
Conduct risk	Due to poor customer outcomes arising from the impacts of climate change including changes to financial stability or general wellbeing, which will either be supported or exacerbated by NatWest Group's conduct. Mitigants include additional checks on sustainability claims and applying product flaw controls.	Transition: government policy and legislation, market, technology, reputation Liability: greenwashing	Scenario analysis Transaction level assessments
Operational risk	Due to the increased likelihood and potential impact of business disruption or arising from new and changing policy standards. Mitigants include resilience and disclosure controls.	Physical: acute, chronic[(2)] Transition: government policy and legislation, market, technology, reputation	Scenario analysis Transaction level assessments
Reputational risk	Due to the risk of damage to NatWest Group's reputation arising from perceived impact on climate change or adequacy of actions taken in response when compared against ambitions and progress made by peers. Mitigants include the environmental, social and ethical risk framework.	Transition: government policy and legislation, market, technology, reputation Liability: greenwashing	Portfolio level assessments Transaction level assessments

(1) NatWest Group's climate transition planning uses different time frames than those used in financial reporting. Accordingly, the references to 'short', 'medium' and 'long-term' in climate reporting are not indicative of the meaning of similar terms used in NatWest Group's other disclosures.
(2) Acute – event-driven such as increased severity of extreme weather events (for example, storms, droughts, floods, and fires) or water, land or air pollution. Chronic – longer-term shifts in precipitation and temperature and increased variability in weather patterns (for example, sea level rise) or biodiversity loss.

Climate and nature risk continued

Key developments in 2024

The effective management of climate and nature risk requires the full integration of climate-related risk factors into strategic planning, transactions and decision-making. The approach has evolved since 2021 alongside NatWest Group's ongoing, multi-year progressive pathway to mature climate risk management capabilities, and in 2024:

- NatWest Group continued to enhance its in-house climate risk modelling capabilities, supporting the integration of climate risk within its capital adequacy (ICAAP), impairment (IFRS 9) and risk management processes.
- NatWest Group partnered with climate experts from the University of Exeter to create bespoke climate risk scenario narratives that explore the range of physical and transition risks which could impact NatWest Group and its customers over the next five to ten years. These narratives are being used to inform the scenarios used by NatWest Group for a range of processes, as well as to enhance the overall understanding of the scale and complexity of near-term climate risks. Further details of the outcomes of NatWest Group's latest climate-related scenario analysis can be found in the NatWest Group plc 2024 Sustainability Report.
- NatWest Group began to roll out Climate Decisioning Framework (CDF) tools. These comprise climate risk scorecards and climate transition plan assessment tools. The roll-out was completed on a test and learn basis and the scorecard outputs do not drive credit risk decision-making as yet.
- In January 2024, the scope of the climate risk policy was expanded to recognise nature-related risks beyond climate change. NatWest Group's capability to manage climate risks is more mature than its capability to manage nature-related risks.
- Building on activity in 2023, NatWest Group enhanced its understanding of nature risks by completing a pilot Locate, Evaluate, Assess and Prepare (LEAP) assessment as recommended by the Taskforce on Nature-related Financial Disclosures. The pilot focused on a deep dive of three sectors in the Non-Personal portfolio.

Governance

The Board is responsible for monitoring and overseeing climate-related risk within NatWest Group's overall business strategy and risk appetite.

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

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

During 2024, the Group Executive Committee provided oversight of the latest iteration of NatWest Group's climate transition plan, progression in establishing partnerships and opportunities including oversight of progress against the NatWest Group climate and sustainable funding and financing target and ensuring the effective management of climate-related risks. Work continued in 2024 to mature NatWest Group's climate-related risk management capabilities.

The Group Executive Committee will continue to supervise strategic implementation and delivery, supported by the Climate Centre of Excellence, segments and functions.

Risk appetite

Climate risk appetite is approved by the Board. Performance against risk appetite is reported regularly to the Executive Risk Committee, the Board Risk Committee, and the Board. Relevant climate risk matters are escalated through the Executive Risk Committee and Board Risk Committee and to the Board as applicable. For more information, refer to the Governance and remuneration section.

These risk appetite measures alongside additional segment-specific risk measures were used to inform climate risk reporting to senior risk management forums, linking risk management policies to NatWest Group's strategic priorities.

Monitoring and measurement

NatWest Group continues to enhance its processes to effectively measure the potential size and scope of climate-related risks, through the three approaches detailed below.

The approach to nature-related risks is not as mature as the approach to climate-related risks with the completion of the LEAP pilot being the first step in identifying and assessing nature-related risks.

Scenario analysis

NatWest Group focused on continuing to develop the capabilities to use scenario analysis to identify the most material climate risks for its customers, seeking to harness insights to inform risk management practices and support decision making.

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

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

- Regulatory stress testing requirements.
- Portfolio management.
- Strategic decision-making, capital adequacy and provisioning.

There are various challenges with climate scenario analysis, including in relation to the immaturity of modelling techniques (for example, not picking up tipping points such as the slow down/potential collapse of the Atlantic meridional overturning circulation (AMOC)) and limitations surrounding data on climate-related risks. In addition, there is significant uncertainty as to how the climate will evolve over time, how and when governments, regulators, businesses, investors and customers respond and how those responses impact the economy, asset valuations, economic systems, policy and wider society. These risks and uncertainties, coupled with significantly long timeframes, make the outputs of climate-related risk modelling with respect to the potential use cases identified inherently more uncertain than outputs modelled for traditional financial planning cycles based on historical financial information.

Portfolio level assessment

NatWest Group uses a number of tools to undertake portfolio level assessments including operational limits in retail credit risk, stress analysis in market risk and heightened climate-related risk sector assessment in Non-personal credit risk. The latter seeks to identify sectors that are likely to see increased credit risks for NatWest Group because of climate-related factors, over a ten to 15-year horizon. A breakdown is included in the NatWest Group plc 2024 Sustainability Report.

NatWest Group also regularly considers the potential impact of existing and emerging regulatory requirements related to climate change at NatWest Group and subsidiary level, through external horizon scanning and monitoring of emerging regulatory requirements.

Transaction level assessment

Assessments are undertaken which consider anti-greenwashing factors within NatWest Group's marketing and communications processes. NatWest Group's suppliers are encouraged to undertake assessments which aim to improve sustainability performance.

Within the Non-Personal credit portfolio, NatWest Group uses its initial suite of climate risk scorecards and CDF tools to engage with its customers to support them in better understanding climate-related risks for their business and conduct climate transition plan assessments. In 2024, CDF tools were rolled out on a phased test and learn basis focused on business areas covering large corporates, mid-corporates, commercial real estate, housing associations and some financial institutions customer segments. Through this process, NatWest Group continues to build capability among first and second-line risk colleagues, and a culture where consideration of climate risk is part of the credit journey.

Mitigation

NatWest Group manages and mitigates climate-related risk in the Non-Personal portfolio through:

- Top-down portfolio assessments, including incorporating climate factors in the overall sector strategy, updating the environmental, social and ethical risk acceptance criteria in response to potential climate-related risks and applying climate-enhanced transaction acceptance standards.
- Bottom-up transaction assessments, including ensuring enhanced oversight for the largest lending climate transactions and use of qualitative climate risk scorecards, to provide a consistent and structured approach for understanding customer-specific exposure to climate-related risks.

During 2024, Commercial & Institutional continued to enhance pricing frameworks to embed climate considerations. These enable NatWest Group to support businesses to help address the climate challenge and to encourage Commercial & Institutional customers towards more sustainable, transition-aligned transactions.

In the residential mortgage portfolio, lending limits were applied based on climate characteristics, including: (i) exposure to EPC A and B rated properties, (ii) buy-to-let properties with potential EPC between D and G and (iii) flats, new builds and buy-to-let properties at high or very high risk of flood. Additionally, the credit policies do not allow buy-to-let mortgages to properties with an EPC rating between F and G. Limits are continually reviewed to reflect new flood risk data, risk profile and market conditions. Refer to page 213 for a breakdown of Personal exposure by EPC band, and page 212 for a breakdown of Personal exposure at high and very high risk of flooding by region.

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

NatWest Group also continues to engage actively with academia to ensure that best practice and the latest thinking on climate risks is considered within NatWest Group's work. For example, the work with University of Exeter as described previously.

Operational risk

Definition

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

Sources of risk

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

Key developments in 2024

- The continued embedding of the enhanced risk and control self-assessment approach with a focus on material operational risks and controls across key end-to-end processes.
- An enhanced approach to introduce a single risk and control performance assessment has been developed and tested during 2024. This will replace the current Control Environment Certification (CEC) approach from 2025.
- The automation of data-led insights into the operational risk profile to proactively drive management of the risks and oversight thereof.
- The embedding of robust operational risk appetite measures which provide comprehensive coverage of the key operational risks.
- The introduction of an effective and well-defined approach to leverage artificial intelligence to enhance controls articulation and manage controls data quality on an ongoing basis.

Governance

The risk governance arrangements in place for operational risk are aligned to the requirements set out in the Board approved enterprise-wide risk management framework and are consistent with achieving safety, soundness and sustainable risk outcomes.

Aligned to this, a strong operational risk management oversight function is vital to support NatWest Group's ambitions to serve its customers better. Improved management of operational risk against defined risk appetite is vital for stability and reputational integrity.

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

Risk appetite

Operational risk appetite is approved by the Board and supports effective management of all operational risks. It expresses the level and types of operational risk NatWest Group is willing to accept to achieve its strategic objectives and business plans. NatWest Group's operational risk appetite quantitative and qualitative statements encompass the full range of operational risks faced by its legal entities, businesses and functions.

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

Performance against risk appetite is reported regularly to the Executive Risk Committee, the Board Risk Committee, and the Board. Relevant operational risk matters are escalated through the Executive Risk Committee and Board Risk Committee and to the Board as applicable. For more information, refer to the Governance and remuneration section.

Mitigation

Risks are mitigated by applying key preventative and detective controls. This is an integral step in the risk self-assessment methodology which is used to determine residual risk exposure. Control owners are accountable for the design, execution, performance, and maintenance of key controls. Key controls are regularly assessed for adequacy and tested for effectiveness.

The results are monitored and, where a material change in performance is identified, the associated risk is re-evaluated. All residual risks that exceed the target appetite position are subject to action plans to bring them within appetite.

Supporting our understanding of control is the CEC process. This is a bi-annual process, which requires senior members of the executive and management to assess the adequacy and effectiveness of their internal control frameworks which supports certification that their business or function is compliant with the Internal Control over Financial Reporting (Sarbanes-Oxley Section 404) regulatory requirements and with the requirements

of the UK Corporate Governance Code section on Risk Management and Internal Controls.

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

Monitoring and measurement

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

Risk and control self-assessments are used across business areas and support functions to identify and assess material non-financial risks (including operational risks, financial crime and conduct risks) and key controls. All risks and controls are mapped to NatWest Group's risk directory. Risk assessments are refreshed at least every two years or sooner in response to internal and external events to ensure they remain relevant and that they capture any emerging risks.

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

Operational risk continued

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

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

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

Operational resilience and cybersecurity

NatWest Group manages and monitors operational resilience through its enhanced risk and control self-assessment methodology. This is underpinned by setting and monitoring of forward-looking risk indicators and performance metrics for the operational resilience of important business services.

Significant progress has been made in meeting regulatory expectations for operational resilience, with involvement in a number of industry-wide operational resilience forums.

This enables a cross-sector view of the operational resilience risk profile and the pace of ongoing innovation and change, both internally and externally.

NatWest Group operates layered security controls and its architecture is designed to provide inherent protection against threats. This approach avoids reliance on any one type or method of security control. Minimum security control requirements are set out in key risk policies(1), standards, processes and procedures.

Throughout 2024, NatWest Group continued to monitor and manage the threat landscape focusing on:

- Initial access brokers and nation states – increasingly sophisticated attacks from ransomware gangs and ongoing challenges given the geopolitical tensions that are increasing the likelihood of disruptive cyberattacks.
- Developments in innovation and technology, assessing the inherent risk and developing appropriate response to mitigate associated risks, for example artificial intelligence and cloud adoption.

As cyberattacks evolve, NatWest Group continues to invest in additional capability designed to defend against emerging risks.

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

Event and loss data management

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

All financial impacts and recoveries associated with an operational risk event are reported against the date they were recorded in NatWest Group's financial accounts. A single event can result in multiple losses (or recoveries) that may take time to crystallise. Losses and recoveries with a financial accounting date in 2024 may relate to events that occurred, or were identified in, prior years. NatWest Group purchases insurance, against specific losses, including cyberattacks, and to comply with statutory or contractual requirements.

Operational risk continued

Percentage and value of events

At 31 December 2024, due to the release of unutilised conduct-related provisions, the value of losses assigned to the clients, products and business practices (CPBP) event category accounted for a negative 206% of all NWG's operational risk losses (a positive 72% in 2023).

	Value of events				Volume of events (1)	
	£m		Proportion		Proportion	
	2024	2023	2024	2023	2024	2023
Fraud - external	43	62	238%	23%	88%	86%
Clients, products and business practices	(37)	199	(206)%	72%	2%	4%
Execution, delivery and process management	8	11	45%	4%	-	-
Employment practices and workplace safety	1	1	8%	-	1%	1%
Technology and infrastructure failures	3	2	15%	1%	8%	8%
Disasters and public safety	-	-	-		1%	1%
	18	275	100%	100%	100%	100%

(1) The calculation in the table is based on the volume and value of events (the proportion and cost of operational risk events to NatWest Group) where the associated loss is more than or equal to £10,000.

Cybersecurity Risk Management Processes

Our cybersecurity risk management forms an integral part of NatWest Group's overall enterprise-wide risk management framework (EWRMF) that is designed around a three lines of defence model. Specifically, management of cybersecurity risk is a subset of NatWest Group's wider operational risk management. To support our cybersecurity risk management, we have information and cybersecurity policies. These policies are reviewed at least annually and benchmarked against industry best practice standards, including the Information Security Forum: Standard Of Good Practice (ISF: SOGP) and relevant publications by competent authorities such as the National Cyber Security Centre (NCSC), to help us identify and remediate any gaps in our controls and procedures. Our policies are also aligned with a number of other international and industry standards, such as ISO 27001 and the National Institute of Standards and Technology Cyber Security Framework. In addition, NatWest Group is certified in Cyber Essentials Plus by the IASME Consortium Ltd (IASME), a recognised government owned scheme operated by the NCSC.

The information and cybersecurity policies form part of our internal process to support NatWest Group's annual attestation to its management's assessment of the effectiveness of its internal control over financial reporting required under Section 404 of the Sarbanes-Oxley Act.

Our cybersecurity risk management framework is designed to mitigate the impact of cybersecurity threats and incidents.

The framework also includes a structured approach for identifying and managing both internal cybersecurity incidents and external incidents impacting our third-party suppliers.

In addition, the framework includes a process for assessing the severity and source of a cybersecurity threat or incident, including in relation to third-party service providers, enabling us to implement mitigating controls as required and to inform NatWest Group's management and board of directors of any material impact.

The functions of our cybersecurity risk management framework are based on a three lines of defence model:

- NatWest Group's first line of defence is responsible for setting NatWest Group's information and cybersecurity risk management strategy and policies, including: delivering effective and efficient cybersecurity products and services and identifying, considering and assessing material cybersecurity threats on an ongoing basis. As part of the first line of defence we:
  a) continue to invest significant resources in developing and improving our cybersecurity risk management processes and engage third-party service providers to independently review and test these processes at least annually.
  b) support due diligence processes in respect of third-party service providers involved in our supply chain by defining minimum security requirements in line with industry practice that suppliers are contractually bound by. These minimum standards, among others, require suppliers to notify NatWest Group of any material cybersecurity incidents.
  c) educate our employees and customers on cybersecurity threats and incidents on the basis of education and awareness programmes that are designed around the most relevant cybersecurity threats and incidents for NatWest Group. These programmes, including ethical phishing campaigns are reviewed regularly and updated based on changes to the cybersecurity threat landscape. Our employees are also required to participate in annual information security (including cybersecurity) trainings.
- As part of the second line of defence, a dedicated Operational Risk team is responsible for the assessment, identification and management of NatWest Group's cybersecurity risk and provides regular updates and opinions to senior risk committees of NatWest Group. These include monthly updates and escalations as required to the NatWest Digital X Risk Committee. The Operational Risk team also provides annual opinions to NatWest Group's Executive Risk Committee and Board Risk Committee.

Operational risk continued

- As part of the third line of defence, NatWest Group's Internal Audit team has a risk-based coverage approach to assess the adequacy of the design and operational effectiveness of key internal controls, governance and risk management, including in connection with cybersecurity risk. The frequency and scope of the internal audit coverage depends on the ongoing assessment of the key risks to NatWest Group.

Cybersecurity threats for 2024

NatWest Group is continuously exposed to cybersecurity threats across its business and supply chain, which are closely monitored by NatWest Group. In the year ended 31 December 2024, we did not identify any cybersecurity threats that have materially affected or are reasonably likely to materially affect NatWest Group. However, given the nature of cybersecurity threats, we cannot eliminate all risks from cybersecurity threats, or provide assurances that we have not experienced an undetected cybersecurity incident. For more information about these risks, refer to the Risk Factors section – "NatWest Group is subject to increasingly sophisticated and frequent cyberattacks".

Board Cybersecurity Risk Oversight

Board

The Board of Directors (Board) ensures there is a framework of prudent and effective controls which enables risks – including information and cyber security risk - to be assessed and managed. In addition to approving the EWRMF (including NatWest Group's risk appetite framework) on recommendation from the Group Board Risk Committee, the Board approves the risk appetite for principal risks, including operational risk of which information and cybersecurity is a component.

The Board monitors information and cybersecurity performance against risk appetite through the receipt of regular reporting and receives reporting on top and emerging risks, including the likelihood of a cyber-attack. The Board also considers material risks, including information and cybersecurity, and reviews the effectiveness of risk management and internal control systems.

Group Board Risk Committee (BRC)

In relation to information and cybersecurity risk, BRC provides oversight and advice to the Board on current and future risk exposures of NatWest Group and its subsidiaries; future risk profile including risk appetite; the approval and effectiveness of the EWRMF and the internal controls required to manage risk. It approves the enterprise-wide risk management strategy and oversees its effective delivery. BRC reviews all information and cybersecurity risk exposures and management's recommendations to monitor, control and mitigate such exposures. It also reviews NatWest Group's information and cybersecurity performance against risk appetite through the receipt of regular reporting, updates on top and emerging risks and updates from the first and second lines of defence and escalates matters to the Board as required.

Management responsible for managing information and cybersecurity risk

NatWest Group's first line of defence is responsible for setting NatWest Group's information and cybersecurity risk management strategy, including: delivering effective and efficient cybersecurity products, policies and services and identifying, considering and assessing material cybersecurity threats on an ongoing basis. NatWest Group's cybersecurity programmes are under the direction of the Chief Information Officer (CIO) who holds regulatory accountability under the Senior Managers and Certification Regime for defining and delivering NatWest Group's internal technology, infrastructure services and customer operations, including NatWest Group's IT strategy, cybersecurity, operational continuity, and resilience. The Chief Information Security Officer (CISO) reports to the CIO and receives regular reports from the cybersecurity team under his supervision. The CIO is an established Technology Leader with over 30 years of experience in Financial Services, joining NWG in 2022. Prior to 2022, the CIO spent eight years at Deutsche Bank where he held a number of roles including CIO for the Corporate and Investment Bank, Head of Technology for Financial Crime, CIO for the UK and Group CTO. Prior to joining Deutsche Bank, the CIO drove the technology strategy and innovation agenda for RBS Markets as their CIO and spent the early part of his career at JP Morgan.

The CISO, via the cybersecurity team, monitors the prevention, detection, mitigation, and remediation of cybersecurity threats and incidents. The CISO and the cybersecurity team are experienced information security professionals with many years of experience in the information and cyber security industry. Prior to joining NatWest Group, the CISO was a technical director at Communications-Electronics Security Group (now known as the UK's National Cyber Security Centre) where he advised on securing some of the UK's most critical assets. He is a member of the Chartered Institute of Information Security (CIISec) and has spoken at a wide range of events on cyber security and related topics.

Model risk

Definition

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

Sources of risk

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

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

Key developments in 2024

- NatWest Group remained within model risk appetite throughout 2024.
- The Model Risk Management Enhancement Programme was set up to support NatWest Group's response to the PRA's Supervisory Statement 1/23 (SS1/23). A self-assessment against SS1/23 was completed, reviewed by the Board and submitted to the PRA. Effort was focused on implementing an enhanced model risk management framework, including an expanded model identification exercise and roll-out of a new model tiering approach.
- Model inventory design changes were carefully delivered to support the implementation of framework enhancements. Focus also continued on improving the completeness and accuracy of model risk data contained within the inventory through enhanced oversight metrics and targeted remediation work.

Governance

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

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

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

Risk appetite

Model risk appetite is approved by the Board. It is set in order to limit the level of model risk that NatWest Group is willing to accept in the course of its business activities. The model risk appetite statement and associated measures are reviewed and approved by the Board on the Board Risk Committee's recommendation at least annually to ensure they remain appropriate and aligned to strategy.

Business areas are responsible for monitoring performance against appetite and remediating models outside appetite.

Performance against risk appetite is reported regularly to the Executive Risk Committee, the Board Risk Committee, and the Board. Relevant model risk matters are escalated through the Executive Risk Committee and Board Risk Committee and to the Board as applicable. For more information, refer to the Governance and remuneration section.

Monitoring and measurement

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

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

All models developed for use are assigned a model tier, based on the model's materiality and complexity. Risk based model tiering is used to prioritise risk management activities throughout the model lifecycle, and to identify and classify those models which pose the highest risk to NatWest Group's business activities, safety and/or soundness.

Validation of material models is conducted by an independent risk function comprising of skilled, well-informed subject matter experts. This is completed for new models or material amendments to existing models and as part of an ongoing periodic programme to assess model performance. The frequency of periodic revalidation is aligned to the tier of the model. The independent validation focuses on a variety of model features, including model inputs, model processing, model outputs, the implementation of the model and the quality of the ongoing performance monitoring. Independent validation also focuses on the quality and accuracy of the development documentation and the model's compliance with regulation.

The model materiality combined with the validation rating provides the basis for model risk appetite measures and enables model risk to be robustly monitored and managed across NatWest Group.

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

Mitigation

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

Reputational risk

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

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

Key developments in 2024
- Reputational risk assessment guidance was updated. Colleagues in relevant roles received updated training on key aspects of the policy and framework.
- Enhancements were made to the environmental, social and ethical (ESE) risk framework, including implementation of the ESE human rights risk acceptance criteria.

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

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

Risk appetite
Reputational risk appetite is approved by the Board. NatWest Group manages and articulates its appetite for reputational risk through a qualitative reputational risk appetite statement and associated quantitative measures which are reviewed and approved at least annually by the Board on the Board Risk Committee's recommendation to ensure they remain appropriate and aligned to strategy.

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

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

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

Additional principal risk indicators for material risks being monitored are also reported to the Reputational Risk Committee and to the Executive and Board Risk Committees.

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

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

NatWest Group has in recent years been the subject of investigations and reviews by a number of regulators and governmental authorities, some of which have resulted in past fines, settlements and public censure. Refer to the Litigation and regulatory matters section of Note 25 to the consolidated financial statements for details of material matters currently affecting NatWest Group.