

NatWest Group plc 17 February 2023
NatWest Markets N.V. 2022 ARA

NatWest Markets N.V. today announces the publication of its 2022 Annual Report and Accounts. This company is a wholly-owned subsidiary of NatWest Markets Plc. The 2022 Annual Report and Accounts for NatWest Markets N.V. is available on NatWest Group plc's website at <https://investors.natwestgroup.com/reports-archive>

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For the purpose of compliance with the Disclosure Guidance and Transparency Rules, this announcement also contains risk factors extracted from the Annual Report and Accounts 2022 in full unedited text. Page references in the text refer to page numbers in the Annual Report and Accounts 2022.

Principal Risks and Uncertainties

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

Economic and political risk

NWM N.V. Group, its customers and its counterparties face continued economic and political risks and uncertainties in the UK, European and global markets, including as a result of high inflation and rising interest rates, supply chain disruption and the Russian invasion of Ukraine.

The value of NWM N.V. Group's own and other securities may be materially affected by market risk, including as a result of market fluctuations. Market volatility, illiquid market conditions and disruptions in the credit markets may make it extremely difficult to value certain of NWM N.V. Group's own and other securities, particularly during periods of market displacement. This could cause a decline in the value of NWM N.V. Group's financial instruments. This may adversely affect NWM N.V. Group's results of operations in future periods, or inaccurate carrying values for certain securities. Similarly, NWM N.V. Group trades a considerable amount of own and other securities (including derivatives) and volatile market conditions could result in a significant decline in NWM N.V. Group's net trading income or result in a trading loss.

In addition, financial markets are susceptible to severe events evidenced by rapid depreciation in asset values, which may be accompanied by a reduction in asset liquidity. Under these conditions, hedging and other risk management strategies may not be as effective at mitigating losses as they would be under more normal market conditions. Moreover, under these conditions, market participants are particularly exposed to trading strategies employed by many market participants simultaneously and on a large scale, increasing NWM N.V. Group's counterparty risk. NWM N.V. Group's risk management and monitoring processes seek to quantify and mitigate NWM N.V. Group's exposure to extreme market moves. However, market events have historically been difficult to predict and NWM N.V. Group, its customers and its counterparties could realise significant losses if extreme market events were to occur.

NWM N.V. Group is affected by global economic and market conditions. Uncertain and volatile economic conditions can create a challenging operating environment for financial services companies such as NWM N.V. Group. The outlook for the global economy remains uncertain including due to: falling economic activity, high inflation, rising interest rates, elevated energy and food prices, supply chain disruption, changes to monetary and fiscal policy, and the impact of armed conflict (including the Russian invasion of Ukraine).

These conditions, including the cost-of-living crisis, could be worsened by a number of factors including: instability in the global financial system, market volatility and change, fluctuations in the value of the pound sterling and euro, new or extended economic sanctions, the COVID-19 pandemic, economic volatility in emerging markets, volatility in commodity prices or concerns regarding

sovereign debt or sovereign credit ratings. Economic conditions may also be affected by the changing demographics in the markets that NWM N.V. Group serves, increasing social and other inequalities, or rapid changes to the economic environment due to the adoption of technology, automation, and artificial intelligence, or due to climate change, environmental degradation, biodiversity loss and/or other sustainability risks. Any of the above developments could adversely affect NWM N.V. Group directly (for example, as a result of credit losses) or indirectly (for example, by impacting global economic growth and financial markets and NWM N.V. Group's clients and their banking needs).

NWM N.V. Group is also exposed to risks arising out of geopolitical events or political developments, such as exchange controls and other measures taken by sovereign governments that may hinder economic or financial activity levels. Unfavourable political, military or diplomatic events, increasing geopolitical tensions leading to armed conflict, protectionist policies or trade barriers, secession movements or the exit of other member states from the EU, tax changes, new and widespread public health crises (including any epidemics or pandemics), state and privately sponsored cyber and terrorist acts or threats, and the responses to each of the above economic, political or other scenarios by various governments and markets, may adversely affect the business and performance of NWM N.V. Group, including as a result of the indirect impact on regional or global trade and/or NWM N.V. Group's customers and counterparties.

The COVID-19 pandemic prompted many changes that may prove to be permanent shifts in customer behaviour and economic activity, such as changes in spending patterns and significantly more people working in a more flexible manner. These changes may affect asset prices, the economic environment, and NatWest Group's customers' and counterparties' financial performance and needs. In response to the COVID-19 pandemic, central banks, governments, regulators, and legislatures in the UK and elsewhere have offered unprecedented levels of support and various schemes to assist businesses and individuals, many of which have since been curtailed or withdrawn. However, risks remain as to whether these loans will be repaid.

The UK experienced significant political uncertainty in 2022, which may persist into the foreseeable future. This could lead to a loss of confidence in the UK, which could in turn, negatively impact companies operating in the UK. NatWest Group also faces political uncertainty in Scotland as a result of a possible second Scottish independence referendum. Independence may adversely affect NatWest Group both in relation to entities incorporated in Scotland and in other jurisdictions. Any changes to Scotland's relationship with the UK or the EU would adversely affect the environment in which NatWest Group and its subsidiaries operate and may require further changes to NatWest Group (including NWM Group's and NWM Group N.V.'s structure), independently or in conjunction with other mandatory or strategic structural and organisational changes, any of which could adversely affect NWM N.V. Group.

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

Continuing uncertainty regarding the effects and extent of the UK's post Brexit divergence from EU laws and regulation, and NWM N.V.'s post Brexit EU operating model may continue to adversely affect NWM Plc (NWM N.V.'s parent company) and its operating environment and NatWest Group plc (NWM N.V.'s ultimate parent company) and may have an indirect effect on NWM N.V. Group.

The UK ceased to be a member of the EU and the European Economic Area ('EEA') on 31 January 2020 ('Brexit') and the 2020 EU-UK Trade and Cooperation Agreement ('TCA') ended the transition period on 31 December 2020. The TCA was accompanied by a Joint Declaration on financial services, which sets out an intention for the EU and UK to cooperate on matters of financial regulation and to agree a Memorandum of Understanding ('MoU'), which remains unsigned. Certain aspects of the services provided by NatWest Group are therefore subject to obtaining local licences or are subject to individual equivalence decisions (temporary or otherwise) by relevant regulators. The EU's equivalence regime does not cover most lending and deposit taking, and determinations in respect of non-EU countries have not, to date, covered the provision of most financial investment services. In addition, equivalence determinations do not guarantee permanent access rights and can be withdrawn with short notice. In late 2021 the European Commission proposed legislation that would require non-EU firms to establish a branch or subsidiary in the EU before providing 'banking services' in the EU. If these proposals become law all 'banking services' will be licensable activities in each EU member state and member states will not be permitted to offer bilateral permissions to financial institutions outside the EU allowing them to provide 'banking services' in the EU. Uncertainty remains as to whether 'banking services' will also include investment products. Furthermore, failure to extend existing equivalence determinations, exemptions and derogations in relation to regulations such as margin and clearing regulations or capital regulations, may adversely affect customer engagement and/or may adversely affect the operating model and business operations of NWM N.V. Group.

NatWest Group continues to evaluate its post Brexit EU operating model, making adaptations as necessary. NatWest Group also continues to assess where NatWest Group companies can obtain bilateral regulatory permissions to facilitate intragroup transactions and/or to permit business to continue from its UK entities, transferring what cannot be continued to be rendered from the UK to an EEA subsidiary or branch, where permitted or commercially reasonable to do so. Where these regulatory permissions are temporary or are withdrawn, a different approach may need to be taken or may result in a change in operating model or some business being ceased. Not all NatWest Group entities have applied for bilateral regulatory permissions and instead conduct EEA business through an EEA licensed subsidiary or branch. Certain permissions are required in order to maintain the ability to clear euro payments. Other permissions, including the ability to have two intermediate EU parent undertakings, may need to be obtained, and structural changes may need to be made to allow NWM N.V. Group to continue to serve EEA customers from both the ring-fenced and non-ring-fenced banking entities. Any failure to obtain such permissions or make such structural changes, in a timely manner, or at all, could adversely affect NWM N.V. Group and the customers that it serves. As described in '*NWM Group (including NWM N.V. Group) has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy and NatWest Group's recent creation of its C&I business segment (of which NWM Group forms part) and may continue to be subject to significant structural and other change*', NWM Group expects that NatWest Group's Western European corporate portfolio (principally consisting of term funding and revolving credit facilities) ('Transfer Business') may be: (i) transferred from the ring-fenced subgroup of NatWest Group to NWM Group, and/or (ii) transferred to the ring-fenced subgroup

of NatWest Group from NWM Group, subject to regulatory and customer requirements. Furthermore, transferring business to an EEA based subsidiary is a complex exercise and involves legal, regulatory and execution risks, and could result in a loss of business and/or customers or higher than anticipated costs. The changes to NatWest Group's and NWM Group's operating model have been costly and failure to receive the requested regulatory permissions and/or further changes to their business operations, product offering and customer engagement could result in further costs and/or regulatory sanction. Any of the above could, in turn, negatively impact NWM N.V. Group.

The long-term effects of Brexit and the uncertainty regarding NatWest Group's EU operating model may adversely affect NWM Group and NWM N.V. Group's business. These may be exacerbated by wider UK and global macro-economic trends and events which may significantly impact NWM N.V. Group and its customers and counterparties who are themselves dependent on trading with the EU or personnel from the EU. The long-term effects of Brexit may also be exacerbated by wider UK and global macro-economic trends and events.

Uncertainties remain as to the extent to which EU/EEA laws will diverge from UK law. For example, bank regulation in the UK may diverge from European bank regulation if the Financial Services and Markets Bill ('FSM') is enacted into law. The UK government has also proposed legislation to introduce automatic 'sunset' clauses for retained EU law by the end of 2023 (the Retained EU Law (Revocation and Reform) Bill 2022), which if enacted could potentially cause market disruption and require additional resources to manage the legal and regulatory consequences. NWM N.V. Group may not be able to respond to these changes effectively, in a timely manner, or at all. The actions taken by regulators in response to any new or revised bank regulation and other rules affecting financial services, may adversely affect NWM Group, including its business, non-UK operations, group structure, compliance costs, intragroup arrangements and capital requirements. The legal and political uncertainty, and any actions taken as a result of this uncertainty, as well as the approach taken by regulators and new or amended rules, could have a significant adverse impact on NWM N.V. Group's businesses, non-UK operations and/or legal entity structure, including NWM N.V. Group, including attendant operating, compliance and restructuring costs, level of impairments, capital requirements, changes to intragroup arrangements, increased complexity of the regulatory environment and tax implications and as a result may adversely affect the profitability, competitive position, business model and product offering of NWM Group and NWM N.V. Group.

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

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

NWM N.V. Group's performance is affected by changes in interest rates. Benchmark overnight interest rates increased in 2022 and are expected to continue to rise in the short-term accompanied by quantitative tightening. However, forward rates at 31 December 2022 suggested interest rates may fall again in the medium-term, albeit not to the low levels experienced during the COVID-19 pandemic.

Stable interest rates support predictable income flow and less volatility in asset and liability valuations, although persistently low and negative interest rates, such as those experienced during the COVID-19 pandemic, are generally expected to be less favourable for banks. For NWM N.V. Group, persistently low interest rates may reduce the yield on its equity structural hedge, for example.

Volatility in interest rates may also result in unexpected outcomes both for interest income and asset and liability valuations which may adversely affect NWM N.V. Group. For example, unexpected movements in spreads between key benchmark rates such as sovereign and swap rates in turn affect liquidity portfolio valuations. Finally, sharp unexpected rises in rates may also have negative impacts on some asset and derivative valuations, for example. Any of the above may adversely affect NWM N.V. Group's future results, financial condition and/or prospects.

Movements in interest rates also influence and reflect the macro-economic situation more broadly, affecting factors such as business and consumer confidence, property prices, default rates on loans and other indicators that may indirectly affect NWM N.V. Group and may adversely affect its future results, financial condition and/or prospects.

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

In November 2019, NWM Plc acquired RBS Holdings N.V. ('RBSH'), NWM N.V.'s immediate parent, from RFS Holdings B.V. ('RFSH'). All entities are wholly owned by NatWest Group plc. As such, NatWest Group plc is the ultimate parent company of NWM N.V.

In its March 2021 Budget, the UK Government announced its intention to carry out a programme of sales of NatWest Group plc ordinary shares with the objective of selling all of its remaining shares in NatWest Group plc by 2026. NatWest Group plc has (i) carried out directed buybacks of NatWest Group plc shares from UK Government Investments Limited ('UKGI') in March 2021 and in March 2022, (ii) carried out sales of NatWest Group plc shares by UK Government Investments Limited ('UKGI') by accelerated

bookbuild in May 2021, and (iii) made purchases under NatWest Group plc's directed and on-market buyback programmes announced in July 2021 and in March 2022. As at 17 January 2023, the UK Government held 44.98% of the ordinary share capital with voting rights of NatWest Group plc. NatWest Group may participate in similar directed or on-market buybacks in the near- and medium-term future. The precise timing and extent of further UKGI's sell-downs is uncertain, which could result in a prolonged period of price volatility for NatWest Group plc's ordinary shares and other securities.

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

In addition, as a wholly owned subsidiary of NWM Plc (and ultimately NatWest Group plc), NWM plc and NatWest Group plc directly and indirectly control NWM N.V. Group's corporate policies and strategic direction. The interests of NatWest Group plc as an equity holder of NWM N.V. Group and as its ultimate parent and the interests of the C&I business segment may differ from the interests of NWM N.V. Group or of potential investors in NWM N.V. Group's securities.

Strategic risk

NWM Group (including NWM N.V. Group) has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy and NatWest Group's recent creation of its C&I business segment (of which NWM Group forms part) and may continue to be subject to significant structural and other change.

In February 2020, NatWest Group announced its strategy to focus on becoming a purpose-led business designed to champion potential, and to help individuals, families and businesses to thrive. As part of NatWest Group's strategy, NWM Group's own strategy has evolved to focus on serving NatWest Group's corporate and institutional customer base, first via the 'NWM Refocusing' programme (which required simplification of its operating model and technological platform as well as reducing its cost base and capital requirements) and then via the creation of NatWest Group's C&I business segment (which combined NatWest Group's Commercial, NatWest Markets and RBS International businesses). NatWest Group plc has been reporting its results under the C&I operating segment structure since the quarter ended 30 March 2022, although NWM Plc continues to also report on a standalone legal entity basis. The C&I business segment is intended to allow closer operational and strategic alignment to support NatWest Group growth, with increased levels of services being provided between NatWest Group entities, with the potential increased risk of breach of the UK ring-fencing regime without effective or enhanced conflicts of interest policies. As a result of further focusing on NatWest Group's core C&I customers, NWM Group's prospects have become further dependent on the success and strategy of NatWest Group.

NWM Group's ability to serve its customers may be diminished by its changing business strategy and customer reactions to the changing nature of NWM Group's business model may be more adverse than expected. Previously anticipated revenue and profitability levels may not be achieved (including in relation to: income from the Rates business, the ability to support customer transactions whilst meeting NWM Group capital targets, and changes to the availability of risk capital, in the timescales envisaged, or at all. An adverse macro-economic environment, political and regulatory uncertainty, market volatility and change and/or strong market competition may require NWM Group to adjust aspects of its strategy or the timeframe for its implementation. It is anticipated that NWM Plc will continue to generate operating losses in the short term and as a result its capital levels may decline.

NWM Group's strategy requires it to meet cost-reduction targets. A significant proportion of the cost savings are dependent on simplification of the IT systems and therefore may not be realised if IT capabilities are not delivered in line with assumptions. In addition, the scale of changes that have been concurrently implemented require the implementation and application of robust governance and controls frameworks and robust IT systems. There is a risk that NWM Group (including NWM N.V. Group) may not be successful in maintaining such governance and control frameworks and IT systems.

As part of NWM Group's strategy, NWM Group has set a number of financial, capital and operational targets and expectations, which are expected to require further reductions to its wider cost base. The financial, operational and capital targets and expectations envisaged by NWM's strategy may not be met or maintained in the timeframes expected or at all. In addition, targets and expectations for NWM Group are based on management plans, projections and models, and are subject to a number of key assumptions and judgments, any of which may prove to be inaccurate.

In addition, to improve efficiencies and best serve customers following Brexit, NWM Group expects that certain assets, liabilities, transactions and activities of NatWest Group's Transfer Business may be: (i) transferred from the ring-fenced subgroup of NatWest Group to NWM Group, and/or (ii) transferred to the ring-fenced subgroup of NatWest Group from NWM Group, subject to regulatory and customer requirements. The timing, success and quantum of any of these transfers remain uncertain as is the impact of these transactions on its go-forward results of operations. As a result, NatWest Group's (including NWM N.V. Group's) future results, financial condition and/or prospects may be adversely affected.

NWM Group has implemented a shared services model and entered into revenue share agreements with some entities within NatWest Group's ring-fenced sub-group (including NatWest Bank Plc and The Royal Bank of Scotland Plc). NWM Group therefore relies directly or indirectly on NatWest Group entities to provide services to itself and its clients. This reliance has recently

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

NWM's strategy entails legal, execution, operational and regulatory (including compliance with the UK ring fencing regime), conflicts, IT system, culture, people, conduct, business and financial risks to NWM Group (including NWM N.V. Group). As a result, NWM Group may not be able to successfully implement some or all aspects of its strategy or may not meet any or all of the related strategic targets or expectations. Each of the risks identified above, individually or collectively, could adversely affect NWM Group's (including NWM N.V. Group's) products and services offering or office locations, competitive position, ability to meet targets and commitments, reputation with customers or business model and may result in higher-than-expected costs, all of which could adversely affect NWM Group (including NWM N.V. Group) and its ability to deliver its strategy. There is a risk that the intended benefits of NatWest Group's and NWM Group's strategies may not be realised in the timelines or in the manner currently contemplated, or at all. Various aspects of NWM Group's strategy may not be successful, may not be completed as planned, or at all, or could be phased or could progress in a manner other than currently expected. This could lead to additional management actions by NWM Group (or NWM N.V. Group), regulatory action or reduced liquidity and/or funding opportunities. Any of the above may lead to NWM Group (and NWM N.V. Group) not being viable, competitive or profitable.

Financial resilience risk

NWM N.V. is NatWest Group's banking and trading entity located in the Netherlands. NWM N.V. has repurposed its banking licence, and NWM N.V. Group may be subject to further changes.

As part of NatWest Group's strategy, NWM N.V. is NatWest Group's banking and trading entity located in the Netherlands, serves EEA customers, and became a NWM Plc subsidiary in November 2019. The banking licence of NWM N.V. was repurposed for which purpose a declaration of non-objection (DNO) was received from the DNB. Approval from the DNB is required for material changes to NWM N.V.'s operating model. In addition, although the head office for NWM N.V. is located in Amsterdam, NWM N.V. Group also operates branches in France, Germany, Ireland, Italy, Sweden and Spain (although the branch in Spain closed in mid-2022). As a subsidiary of NWM Plc (and ultimately NatWest Group plc), NWM N.V. utilises a number of NWM Group and NatWest Group systems, policies and frameworks (via a shared services model) including in relation to: technology (including innovation) and network infrastructure, marketing, risk frameworks, financial accounting systems, reporting, on-boarding processes, model development and validation, certain administrative and legal services and governance. In addition, the products that NWM N.V. offers are based on those offered by NWM Plc. See also, '*Operational risks (including reliance on third party suppliers and outsourcing of certain activities) are inherent in NWM N.V. Group's businesses*'. As such, any changes made to systems, policies, frameworks or products of NatWest Group or NWM Group may have a corresponding adverse effect on NWM N.V.

A number of other factors described above are outside the control of NWM N.V., and should changes be made, there may be an adverse effect NWM N.V.'s profitability.

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

NWM N.V. Group is subject to transfer pricing arrangements with NWM Plc (NWM N.V.'s parent company). Arm's length transfer pricing legislation in both the Netherlands and UK requires that, for transactions between related parties, each entity is rewarded on the same basis as two independent parties negotiating a contract covering the same activities. The transfer pricing arrangements between NWM N.V. and NWM Plc require approval by both counterparties and are subject to audit and/or assessment by Dutch and UK tax authorities. A portion of NWM N.V. Group's income derives from transfer pricing income received from NatWest Group entities. Should the level of such income change as a result of regulatory intervention or otherwise, this may have a material and adverse effect on NWM N.V. Group's profitability.

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

NWM N.V. Group's ability to meet its targets, including its CET1 ratio target, and make discretionary capital distributions and to successfully fulfil its strategy is subject to various internal and external factors and risks. These include but are not limited to: global macro-economic, political, market and regulatory uncertainties, operational risks and risks relating to NWM N.V. Group's business model and strategy (including risks associated with climate, ESG and other sustainability-related issues). See also, '*NWM Group (including NWM N.V. Group) has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy and NatWest Group's recent creation of its C&I business segment (of which NWM Group forms part) and may continue to be subject to significant structural and other change*'.

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

NWM N.V. Group's ability to meet its planned cost reductions in annual costs may vary considerably from year to year. Furthermore, the focus on maintaining balance sheet and cost-reduction targets may result in limited investment in other areas

which could affect NWM N.V. Group's long-term product offering or competitive position and its ability to meet its other targets, including those related to customer satisfaction.

In addition, challenging trading conditions may adversely affect NWM N.V. Group's business and its ability to achieve its targets and execute its strategy.

NWM N.V. Group's strategy may not be successfully executed, it may not meet its targets and expectations, and it may not be a viable, competitive or profitable banking business.

NWM N.V. may not meet the prudential regulatory requirements for capital and liquidity.

NWM N.V. Group is required by the DNB to maintain adequate financial resources. Adequate capital provides NWM N.V. Group with financial flexibility in the face of turbulence and uncertainty in the global economy and specifically in its core European operations.

NWM Plc's and NWM N.V.'s target CET1 ratios are based on regulatory requirements, internal modelling and risk appetite (including under stress). As at 31 December 2022, NWM N.V. Group's CET1 ratio (on a consolidated basis) was 21%. NWM N.V.'s current capital strategy is based on the management of RWAs and other capital management initiatives.

Other factors that could influence NWM N.V.'s CET1 ratios include:

- a depletion of NWM N.V.'s capital resources through reduced profits (which would in turn impact retained earnings) and may result from revenue attrition or increased liabilities, sustained periods of low interest rates, reduced asset values resulting in write-downs or reserve adjustments, impairments, changes in accounting policy, accounting charges or foreign exchange movements;
- a change in the quantum of NWM N.V.'s RWAs, stemming from exceeding target RWA levels, the NWM Refocusing, regulatory adjustments (for example, from additional market risk back testing exceptions), foreign exchange movements or a failure in internal controls or procedures to accurately measure and report RWAs. An increase in RWAs would lead to a reduction in the CET1 ratio;
- changes in prudential regulatory requirements including the Total Capital Requirement for NWM N.V. (as regulated by the DNB), including Pillar 2 requirements and regulatory buffers as well as any applicable scalars;
 - further developments of prudential regulation (for example, finalisation of Basel 3 standards), which will impact various areas including the approach to calculating credit risk, market risk, leverage ratio, capital floors and operational risk RWAs, as well as continued regulatory uncertainty on the details thereto;
 - further losses (including as a result of extreme one-off incidents such as cyberattack, fraud or conduct issues) would deplete capital resources and place downward pressure on the CET1 ratio; or
 - the timing of planned liquidation, disposal and/or capital releases of capital optimisation activity or legacy entities owned by NWM Plc and NWM N.V.

See also, '*NWM Group (including NWM N.V. Group) has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy and NatWest Group's recent creation of its C&I business segment (of which NWM Group forms part) and may continue to be subject to significant structural and other change.*'

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

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

NWM N.V. Group is required to access sources of liquidity and funding through deposits and wholesale funding, including debt capital markets and trading liabilities such as repurchase agreements. As at 31 December 2022, NWM N.V. Group held €1,196 million in deposits from banks and customers. The level of deposits and wholesale funding may fluctuate due to factors outside NWM N.V. Group's control. These factors include: loss of clients, loss of investor confidence (including in individual NWM N.V. Group entities or the European banking sector or the banking sector as a whole), changes in interest rates, government support, increasing competitive pressures for bank funding or the reduction or cessation of deposits and other funding by counterparties, any of which could result in a significant outflow of deposits or reduction in wholesale funding within a short period of time. See also, '*— NWM N.V. Group has significant exposure to counterparty and borrower risk*'.

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

NWM N.V. Group engages from time to time in 'fee based borrow' transactions whereby collateral (such as government bonds) is borrowed from counterparties on an unsecured basis in return for a fee. This borrowed collateral may be used by NWM N.V. Group to finance parts of its balance sheet, either in its repo financing business, derivatives portfolio or more generally across its balance sheet. If such 'fee based borrow' transactions are unwound whilst used to support the financing of parts of NWM N.V. Group balance sheet, then unsecured funding from other sources would be required to replace such financing. There is a risk that NWM N.V. Group would be unable to replace such financing on acceptable terms or at all, which could adversely affect its liquidity position and may adversely affect NWM N.V. Group. In addition, because 'fee base borrow' transactions are conducted off-

balance sheet (due to the collateral being borrowed) investors may find it more difficult to gauge NWM N.V. Group's creditworthiness, which may be affected if these transactions were to be unwound in a stress scenario. Any lack of, or perceived lack of, creditworthiness may adversely affect NWM N.V. Group.

Current European, UK and global macro-economic and political uncertainties and any significant market volatility and change could affect NWM N.V. Group's ability to access sources of liquidity and funding, which may result in higher funding costs and failure to comply with regulatory capital, funding and leverage requirements. As a result, NWM N.V. Group and its subsidiaries could be required to adapt their funding plans or change their operations. This could exacerbate funding and liquidity risk, which could have a negative effect on NWM N.V. Group.

As at 31 December 2022, NWM N.V. Group reported a liquidity coverage ratio of 230% on a solo basis. If its liquidity position were to come under stress and if NWM N.V. Group is unable to raise funds through deposits or wholesale funding sources on acceptable terms or at all, its liquidity position could be adversely affected. This would mean that NWM N.V. Group might be unable to: meet deposit withdrawals on demand or satisfy buy back requests, repay borrowings as they mature, meet its obligations under committed financing facilities, comply with regulatory funding requirements, undertake certain capital and/or debt management activities, or fund new loans, investments and businesses. NWM N.V. Group may need to liquidate assets to meet its liabilities, including disposals of assets not previously identified for disposal to reduce its funding or payment commitments or trigger the execution of certain management actions or recovery options. This could also lead to higher funding costs and/or changes to NWM N.V. Group's funding plans or its operations. In a time of reduced liquidity or market stress, NWM N.V. Group may be unable to sell some of its assets or may need to sell assets at depressed prices, which in either case may adversely affect NWM N.V. Group's future results, financial condition and/or prospects.

NWM N.V. Group independently manages liquidity risk on a stand-alone basis, including through holding its own liquidity portfolio. It has restricted access to liquidity or funding from other NatWest Group entities. As a result, NWM N.V.'s liquidity position could be adversely affected, which may also require assets to be liquidated or may result in higher funding costs which may adversely affect NWM N.V. Group's margins and profitability. NWM N.V.'s management of its own liquidity portfolio and the structure of capital support are subject to operational and execution risk, as NWM N.V. is required to meet its own liquidity and capital requirements.

Continuing market volatility described in the paragraphs above may have a negative effect on NWM N.V. Group's access to liquidity and funding, which could mean that NWM N.V. Group is required to adapt its funding plan or change its operations and could adversely affect NWM N.V. Group.

NWM N.V. Group is reliant on access to the capital markets to meet its funding requirements. The inability to do so may adversely affect NWM N.V. Group.

NWM N.V. Group is reliant on frequent access to the capital markets for funding, at a cost that can be passed through to its customers. This access entails execution risk, regulatory risk, risk of reduced commercial activity, risk of loss of market confidence in NWM N.V. Group if it cannot finance its activities and risk of a ratings downgrade, which could be impeded by a number of internal or external factors, including, those summarised in '*NWM N.V. Group, its customers and its counterparties face continued economic and political risks and uncertainty in the UK, European and global markets, including as a result of high inflation and rising interest rates, supply chain disruption and the Russian invasion of Ukraine,*' and '*Continuing uncertainty regarding the effects and extent of the UK's post Brexit divergence from EU laws and regulation, and NWM N.V.'s post Brexit EU operating model may continue to adversely affect NWM Plc (NWM N.V.'s parent company) and its operating environment and NatWest Group plc (NWM N.V.'s ultimate parent company) and may have an indirect effect on NWM N.V. Group*'.

In addition, NWM N.V. receives capital and funding from NatWest Group plc and NWM N.V. is therefore reliant on the willingness of NatWest Group plc to fund its internal capital targets. NWM N.V. Group has set target levels for different tiers of capital as percentages of its RWAs. The level of capital and funding required for NWM N.V. to meet its internal targets is therefore a function of the level of RWAs and its leverage exposure in NWM N.V. and this may vary over time.

Any inability of NWM N.V. Group to adequately access the capital markets, to manage its balance sheet in line with assumptions in its funding plans, may adversely affect NWM N.V. Group, such that NWM N.V. Group may not constitute a viable banking business and/or NWM N.V. may fail to meet its regulatory capital requirements (at present, NWM N.V. does not yet have its own MREL).

NWM N.V. may not manage its capital, liquidity or funding effectively which could trigger the execution of certain management actions or recovery options.

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

NatWest Group may also address a shortage of capital in NWM N.V. by providing parental support to NWM N.V., subject to evidence that the conditions set out in Article 23 of the BRRD, as implemented into Dutch law article 3:301 and 3:305 of the FMSA have been met. NatWest Group's and/or NWM N.V.'s regulator may also request that NWM N.V. Group carry out additional capital management actions. The Bank of England has identified single point-of-entry at NatWest Group plc, as the preferred resolution strategy for NatWest Group. However, under certain conditions set forth in the BRRD, as implemented by the FMSA, the Dutch

resolution authority, the DNB, also has the power to execute the ‘bail-in’ of certain securities of NWM N.V. without further action at NatWest Group level.

Any capital management actions taken under a stress scenario may, in turn affect factors including: NWM N.V. Group’s product offering, credit ratings, ability to operate its businesses and pursue its current strategies and strategic opportunities as well as negatively impacting investor confidence and the value of NWM N.V. Group’s securities. See also, ‘— *NatWest Group (including NWM N.V.) may become subject to the application of statutory stabilisation or resolution powers which may result in, for example, the write-down or conversion of certain Eligible Liabilities (including NWM N.V.’s Eligible Liabilities)*’. In addition, if NWM N.V.’s liquidity position was to be adversely affected, this may require assets to be liquidated or may result in higher funding costs, which may adversely affect NWM N.V. Group’s operating performance.

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

Rating agencies regularly review NatWest Group plc, NWM Plc, NWM N.V. and other NatWest Group entity credit ratings and outlooks. In September, Moody’s upgraded the credit rating of NWM Plc from A2 (positive outlook) to A1 (stable outlook). NWM N.V. Group entity credit ratings and outlooks, could be negatively affected (directly or indirectly) by a number of factors that can change over time, including: credit rating agencies’ assessment of NWM N.V. Group’s strategy and management’s capability; its financial condition including in respect of profitability, asset quality, capital, funding and liquidity; the level of political support for the industries and regions in which NWM N.V. Group operates; the implementation of structural reform; the legal and regulatory frameworks applicable to NWM N.V. Group’s legal structure; business activities and the rights of its creditors; changes in rating methodologies; changes in the relative size of the loss-absorbing buffers protecting bondholders and depositors; the competitive environment, political and economic conditions in NWM N.V. Group’s key markets (including rising interest rates and higher inflation, supply chain disruptions and the outcome of any further Scottish independence referendum); any reduction of the UK’s sovereign credit rating (currently on negative outlook by Moody’s, S&P and Fitch) and market uncertainty.

In addition, credit ratings agencies are increasingly taking into account sustainability-related factors, including climate, environmental, social and governance related risk, as part of the credit ratings analysis, as are investors in their investment decisions. See also ‘*A reduction in the ESG ratings of NatWest Group or NWM Group (including NWM N.V. Group) could have a negative impact on NatWest Group’s or NWM Group (including NWM N.V. Group)’s reputation and on investors’ risk appetite and customers’ willingness to deal with NatWest Group, NWM Group or NWM N.V. Group.*’

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

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

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

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

Certain of NWM N.V. Group’s current or future competitors may be more successful in implementing innovative technologies for delivering products or services to their clients.

These competitors may be better able to attract and retain clients and key employees, may have more advanced IT systems, and may have access to lower cost funding and/or be able to attract deposits or provide investment-banking services on more favourable terms than NWM N.V. Group. As mentioned above, NWM N.V. operates a shared services model in relation to technology and innovation. Although NWM N.V. Group invests in new technologies and participates in industry and research-led initiatives aimed at developing new technologies, such investments may be insufficient or ineffective, especially given NWM N.V. Group’s focus on its cost savings targets. This may limit additional investment in areas such as financial innovation and could affect NWM N.V. Group’s offering of innovative products or technologies for delivering products or services to clients and its competitive position. NWM Group and NWM N.V. Group may also fail to identify future opportunities or derive benefits from disruptive technologies in the context of rapid technological innovation, changing customer behaviour and growing regulatory

demands. Furthermore, the development of innovative products depends on NWM Group and NWM N.V. Group's ability to produce underlying high-quality data, failing which its ability to offer innovative products may be compromised.

If NWM N.V. Group is unable to offer competitive, attractive and innovative products that are also profitable and timely, it will lose share, incur losses on some or all of its initiatives and lose opportunities for growth. In this context, NWM N.V. Group is investing in the automation of certain solutions and interactions within its customer-facing businesses, including through automation and artificial intelligence. Such initiatives may result in operational, reputational and conduct risks if the technology used is defective, inadequate or is not fully integrated into NWM N.V. Group's current solutions. There can be no certainty that such initiatives will deliver the expected cost savings and investment in automated processes will likely also result in increased short-term costs for NWM N.V. Group.

In addition, NatWest Group's purpose-led strategy, as well as employee remuneration constraints may also have an impact on NWM N.V. Group's ability to compete effectively and intensified competition from incumbents, challengers and new entrants could affect NWM N.V. Group's ability to maintain satisfactory returns.

Moreover, activist investors have increasingly become engaged and interventionist in recent years, which may pose a threat to NatWest Group's strategic initiatives. Furthermore, continued consolidation or technological or other developments in certain sectors of the financial services industry could result in NWM N.V. Group's remaining competitors gaining greater capital and other resources, including the ability to offer a broader range of products and services and geographic diversity, or the emergence of new competitors. Any of the above may adversely affect NWM N.V. Group's future results, financial condition and/or prospects.

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

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

Failure by NatWest Group to meet its quantitative and qualitative requirements of the stress tests set forth by its UK regulators may result in: NatWest Group's regulators requiring NatWest Group to generate additional capital, reputational damage, increased supervision and/or regulatory sanctions and/or loss of investor confidence, all of which may adversely affect NatWest Group's (and NWM N.V. Group's) future results, financial condition and/or prospects.

NWM N.V. Group has significant exposure to counterparty and borrower risk.

NWM N.V., a subsidiary of NWM Plc, has a portfolio of loans and loan commitments to Western European corporate customers. As a result, through the NWM N.V. business and NWM Group's other activities, NWM Group has exposure to many different industries, customers and counterparties, and risks arising from actual or perceived changes in credit quality and the recoverability of monies due from borrowers and other counterparties are inherent in a wide range of NWM N.V. Group's businesses. These risks may be concentrated for those businesses for which client income is heavily weighted towards a specific geographic region, industry or client base.

Furthermore, these risks are likely to increase due to the expected transfer of NatWest Group's Transfer Business: (i) from the ring-fenced subgroup of NatWest Group to NWM Group, and/or (ii) to the ring-fenced subgroup of NatWest Group from NWM Group. See '*NWM Group (including NWM N.V. Group) has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy and NatWest Group's recent creation of its C&I business segment (of which NWM Group forms part) and may continue to be subject to significant structural and other change*'.

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

The credit quality of NWM N.V. Group's borrowers and other counterparties may be affected by the recent global macro-economic and political uncertainties and a further deterioration in prevailing economic and market conditions (including a resurgence of the COVID-19 pandemic or other new health crises) and by changes in the legal and regulatory landscape in countries where NWM N.V. Group is exposed to credit risk (including the extent of the UK's post-Brexit divergence from EU laws and regulation). Any further deterioration in these conditions or changes to legal or regulatory landscapes could worsen borrower and counterparty credit quality or impact the enforcement of contractual rights over security, increasing credit risk.

Concerns about, or a default by, a financial institution could lead to significant liquidity problems and losses or defaults by other financial institutions, since the commercial and financial soundness of many financial institutions is closely related and interdependent as a result of credit, trading, clearing and other relationships. Any perceived lack of creditworthiness of a counterparty or borrower may lead to market-wide liquidity problems and losses for NWM N.V. Group. In addition, the value of collateral may be correlated with the probability of default by the relevant counterparty ('wrong way risk'), which would increase NWM N.V. Group's potential loss. This systemic risk may also adversely affect financial intermediaries, such as clearing agencies,

clearing houses, banks, securities firms and exchanges with which NWM N.V. Group interacts on a daily basis. See also, ‘— NWM N.V. Group is reliant on access to the capital markets to meet its funding requirements. The inability to do so may adversely affect NWM N.V. Group’. As a result, adverse changes in borrower and counterparty credit risk may cause accelerated impairment charges under IFRS 9, increased repurchase demands, higher costs, additional write-downs and losses for NWM N.V. Group and an inability to engage in routine funding transactions.

NWM N.V. Group has applied an internal analysis of multiple economic scenarios (MES) together with the determination of specific overlay adjustments to inform its IFRS 9 ECL (Expected Credit Loss). The recognition and measurement of ECL is complex and involves the use of significant judgment and estimation. This includes the formulation and incorporation of multiple forward-looking economic scenarios into ECL to meet the measurement objective of IFRS 9. The ECL provision is sensitive to the model inputs and economic assumptions underlying the estimate. Going forward, NWM N.V. Group anticipates observable credit deterioration of a proportion of assets resulting in a systematic uplift in defaults, which is mitigated by those economic assumption scenarios being reflected in the Stage 2 ECL across portfolios, along with a combination of post model overlays in both wholesale and retail portfolios reflecting the uncertainty of credit outcomes. See also, ‘Risk and Capital Management — Credit Risk’. A credit deterioration would also lead to RWA increases. Furthermore, the assumptions and judgments used in the MES and ECL assessment at 31 December 2022 may not prove to be adequate resulting in incremental ECL provisions for NWM N.V. Group.

NWM N.V. Group is exposed to the financial industry, including sovereign debt securities, banks, financial intermediation providers (including providing facilities to financial sponsors and funds, backed by assets or investor commitments) and securitised products (typically senior lending to special purpose vehicles backed by pools of financial assets). Due to NWM N.V. Group’s exposure to the financial industry, it also has exposure to shadow banking entities (i.e., entities which carry out activities of a similar nature to banks but not regulated like banks). NWM N.V. Group is required to identify and monitor its exposure to shadow banking entities, implement and maintain an internal framework for the identification, management, control and mitigation of the risks associated with exposure to shadow banking entities, and ensure effective reporting and governance in respect of such exposure. If NWM N.V. Group is unable to properly identify and monitor its shadow banking exposure, maintain an adequate framework, or ensure effective reporting and governance in respect of shadow banking exposure, this may adversely affect NWM N.V. Group’s future results, financial condition and/or prospects.

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

Given the complexity of NWM N.V. Group’s business, strategy and capital requirements, NWM N.V. Group relies on analytical and other models for a wide range of purposes, including to manage its business, assess the value of its assets and its risk exposure, as well as to anticipate capital and funding requirements (including to facilitate NatWest Group’s mandated stress testing). Uncertainties relating to the COVID-19 pandemic have made reliance on analytical models and planning and forecasting for NWM Group more complex, and may result in uncertainty impacting the risk profile of NWM Group and/or that of the wider banking industry. In addition, NWM N.V. Group utilises models for valuations, credit approvals, calculation of loan impairment charges on an IFRS 9 basis, financial reporting and for financial crime (criminal activities in the form of money laundering, terrorist financing, bribery and corruption, tax evasion and sanctions as well as fraud risk management (collectively, ‘financial crime’)). NWM N.V. Group’s models, and the parameters and assumptions on which they are based, are periodically reviewed.

As models analyse scenarios based on assumed inputs and a conceptual approach, model outputs therefore remain uncertain. Failure of models (including due to errors in model design) or new data inputs (including non-representative data sets), for example, to accurately reflect changes in the micro and macro-economic environment in which NWM N.V. Group operates (for example to account for high inflation), to capture risks and exposures at the subsidiary level, and to update for changes to NWM N.V. Group’s current business model or operations, or for findings of deficiencies by NatWest Group (and in particular, NWM Group’s) or NWM N.V. Group’s regulators (including as part of NatWest Group’s mandated stress testing) may render some business lines uneconomic, result in increased capital requirements, may require management action or may subject NWM N.V. Group to regulatory sanction. NWM N.V. Group may also face adverse consequences as a result of actions based on models that are poorly developed, implemented or used, models that are based on inaccurate or compromised data or as a result of the modelled outcome being misunderstood, or by such information being used for purposes for which it was not designed.

NWM N.V. Group’s financial statements are sensitive to underlying accounting policies, judgments, estimates and assumptions.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses, exposures and RWAs. While estimates, judgments and assumptions take into account historical experience and other factors (including market practice and expectations of future events that are believed to be reasonable under the circumstances), actual results may differ due to the inherent uncertainty in making estimates, judgments and assumptions (particularly those involving the use of complex models). Further, accounting policy and financial statement reporting requirements are likely to increasingly require management to adjust existing judgments, estimates and assumptions for the effects of climate-related, sustainability and other matters that are inherently uncertain and for which there is little historical experience which may affect the comparability of NWM N.V. Group’s future financial results with its historical results. Actual results may differ due to the inherent uncertainty in making climate-related and sustainability estimates, judgments and assumptions.

Accounting policies deemed critical to NWM N.V. Group’s results and financial position, based upon materiality and significant judgments and estimates, involve a high degree of uncertainty and may have a material impact on its results. For 2022, these include loan impairments, fair value, deferred tax and conduct and litigation provisions. These are set out in the section ‘Critical accounting policies and key sources of estimation uncertainty’.

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

NWM N.V. Group prepares its consolidated financial statements in accordance with IFRS as issued by the International Accounting Standards Board. Changes in accounting standards or guidance by accounting bodies or in the timing of their implementation, whether immediate or foreseeable, could result in NWM N.V. Group having to recognise additional liabilities on its balance sheet, or in further write-downs or impairments to its assets and may also adversely affect the future results, financial condition and/or prospects of NWM N.V. Group.

NWM N.V. Group's trading assets amounted to €4,440 million as at 31 December 2022. The valuation of financial instruments, including derivatives, measured at fair value can be subjective, in particular where models are used which include unobservable inputs. Generally, to establish the fair value of these instruments, NWM N.V. Group relies on quoted market prices or, where the market for a financial instrument is not sufficiently credible, internal valuation models that utilise observable market data. In certain circumstances, the data for individual financial instruments or classes of financial instruments utilised by such valuation models may not be available or may become unavailable due to prevailing market conditions. In these circumstances, NWM N.V. Group's internal valuation models require NWM N.V. Group to make assumptions, judgments and estimates to establish fair value, which are complex and often relate to matters that are inherently uncertain. Any of these factors could require NWM N.V. Group to recognise fair value losses which may adversely affect NWM N.V. Group's income generation and financial position.

From time to time, the International Accounting Standards Board may issue new accounting standards or interpretations that could materially impact how NWM N.V. Group calculates, reports and discloses its financial results and financial condition, and which may affect NWM N.V. Group capital ratios, including the CET1 ratio. New accounting standards and interpretations that have been issued by the International Accounting Standards Board but which have not yet been adopted by NWM N.V. Group are discussed in 'Future accounting developments'.

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

The BRRD establishes a common approach within the EU for the recovery and resolution of banks. In the UK and the Netherlands, the BRRD has been implemented via national legislation which grants powers to a national resolution authority (the 'NRA'). The UK implementation of the BRRD remains in force now that the Brexit transition has ended. In Europe (which for the avoidance of doubt excludes the UK) the BRRD is also (partly) implemented by a directly binding regulation which established a Single Resolution Mechanism ('SRM') and a single EU Resolution Board ('SRB') with powers which exceed the powers of the EU NRAs.

United Kingdom – NatWest Group plc and its UK affiliates

HM Treasury, the Bank of England and the Prudential Regulation Authority ('PRA') and FCA (together, the 'UK Authorities') are granted substantial powers to resolve and stabilise UK-incorporated financial institutions. Five stabilisation options exist: (i) transfer of all of the business of a relevant entity or the shares of the relevant entity to a private sector purchaser; (ii) transfer of all or part of the business of the relevant entity to a 'bridge bank' wholly-owned by the Bank of England; (iii) transfer of part of the assets, rights or liabilities of the relevant entity to one or more asset management vehicles for management of the transferor's assets, rights or liabilities; (iv) the write-down, conversion, transfer, modification, or suspension of the relevant entity's equity, capital instruments and liabilities; and (v) temporary public ownership of the relevant entity. These tools may be applied to NatWest Group plc as the parent company or to NWM Group, as an affiliate, where certain conditions are met (such as, whether the firm is failing or likely to fail, or whether it is reasonably likely that action will be taken (outside of resolution) that will result in the firm no longer failing or being likely to fail). Moreover, there are modified insolvency and administration procedures for relevant entities, and the Authorities have the power to modify or override certain contractual arrangements in certain circumstances and amend the law for the purpose of enabling their powers to be used effectively and may promulgate provisions with retrospective applicability. Similar powers may also be exercised with respect to NWM N.V. in the Netherlands by the relevant Dutch regulatory authorities.

Under the UK Banking Act, the Authorities are generally required to have regard to specified objectives in exercising the powers provided for by the Banking Act. One of the objectives (which is required to be balanced as appropriate with the other specified objectives) refers to the protection and enhancement of the stability of the financial system of the UK. Moreover, the 'no creditor worse off' safeguard contained in the Banking Act may not apply in relation to an application of the separate write-down and conversion power relating to capital instruments under the Banking Act, in circumstances where a stabilisation power is not also used. Holders of debt instruments which are subject to the power may, however, have ordinary shares transferred to or issued to them by way of compensation.

Uncertainty exists as to how the Authorities may exercise their powers including the determination of actions undertaken in relation to the ordinary shares and other securities issued by NatWest Group (including NWM Group), which may depend on factors outside of NWM Group's control. Moreover, the Banking Act provisions remain largely untested in practice, particularly in respect of resolutions of large financial institutions and groups.

The Netherlands – NWM N.V.

The special resolution regime measures set out in the BRRD were implemented into Dutch law in 2015. The BRRD, and the SRM, provide that the DNB and the SRB are the resolution authorities responsible for a resolution in relation to NWM N.V. (the 'N.V. Authorities', and together with the UK Authorities, the 'Authorities') with broad powers to implement resolution measures with respect to banks incorporated in the Netherlands which meet the conditions for resolution, which may include (without limitation) measures analogous to the Resolution Stabilisation Tools (options set out at points (i) to (iv) above under the Banking Act). These powers and tools are designed to be used prior to the point at which any insolvency proceedings with respect to NWM N.V. could have been initiated.

In addition to the resolution powers of the N.V. Authorities described above, the Dutch Minister of Finance may, with immediate effect, take measures or expropriate assets and liabilities of, claims against or securities issued by or with the consent of NWM N.V., if in the Minister of Finance's opinion, the stability of the financial systems is in serious and immediate danger as a result of the situation in which the firm finds itself (the 'Minister of Finance Powers').

There remains uncertainty regarding the ultimate nature and scope of these powers, and any exercise of the resolution regime powers by the N.V. Authorities or the Minister of Finance Powers may adversely affect holders of NWM N.V.'s Eligible Liabilities that fall within the scope of such powers.

If NatWest Group is at or is approaching the point of non-viability such that regulatory intervention is required, there may correspondingly be an adverse effect on the future results, financial condition and/or prospects of NWM N.V. Group.

NatWest Group is subject to Bank of England and PRA oversight in respect of resolution, and NWM N.V. Group could be adversely affected should the Bank of England in the future deem NatWest Group's preparations to be inadequate.

NatWest Group is subject to regulatory oversight by the Bank of England and the PRA, and is required (under the PRA rulebook) to carry out an assessment of its preparations for resolution, submit a report of the assessment to the PRA, and disclose a summary of this report. The initial report was submitted to the PRA on 30 September 2021 and, in June 2022 the Bank of England's assessment of NatWest Group's preparations did not identify any shortcomings, deficiencies or substantive impediments but did highlight two areas as requiring further enhancements. NatWest Group could be adversely affected should future Bank of England assessments deem NatWest Group's preparations to be inadequate.

NatWest Group has dedicated significant resources towards the preparation of NatWest Group for a potential resolution scenario. If any future Bank of England assessment identifies a significant gap in NatWest Group's ability to achieve the resolvability outcomes, or reveals that NatWest Group is not adequately prepared to be resolved, or did not have adequate plans in place to meet resolvability requirements, NatWest Group may be required to take action to enhance its preparations to be resolvable, resulting in additional cost and the dedication of additional resources. These actions may have an impact on NatWest Group (and NWM N.V. Group) as, depending on the Bank of England's assessment, potential action may include, but is not limited to, resulting in restrictions on maximum individual and aggregate exposures, a requirement to dispose of specified assets, a requirement to change legal or operational structure, a requirement to cease carrying out certain activities and/or maintaining a specified amount of MREL. This may also impact NatWest Group's (and NWM N.V. Group's) strategic plans and may adversely affect NWM N.V. Group's financial condition or may result in reputational damage and/or loss of investor confidence. Additionally, DNB and SRB may exercise similar powers if the recovery and resolution plans of NWM N.V. Group are not satisfactory.

Climate and sustainability-related risks

NWM N.V. Group and its customers, suppliers and counterparties face significant climate and sustainability-related risks, which may adversely affect NWM N.V. Group.

Climate-related risks represent a source of systemic risk in the global financial system. The financial impacts of climate-related risks are expected to be widespread, exacerbating already existing financial vulnerabilities and may disrupt the proper functioning of financial markets and institutions, including NWM N.V. Group.

Financial and non-financial risks from climate change and sustainability related risks can arise through physical and transition risks. In addition, physical and transition risks can trigger further losses, stemming directly or indirectly from legal claims, litigation and conduct liability (referred to as 'liability risk'). See also, '*NWM N.V. Group may be subject to potential climate, environmental, human rights and other sustainability-related litigation, enforcement proceedings, investigations and conduct risk*'.

There are significant uncertainties as to the location, extent and timing of the manifestation of the physical risks of climate change, such as more severe and frequent extreme weather events (storms, flooding, subsidence, heat waves, droughts and wildfires), rising sea levels, nature and biodiversity loss, declining food yields, destruction of critical infrastructure, supply chain disruption and resource scarcity. Damage to NWM N.V. Group customers', suppliers' and counterparties' properties and operations could disrupt business, impair asset values and negatively impact the creditworthiness of customers leading to increased default rates, delinquencies, write-offs and impairment charges in NWM N.V. Group's portfolios. In addition, NWM N.V. Group premises and operations, or those of its critical outsourced functions may experience damage or disruption leading to increased costs and adversely affect NWM N.V. Group's reputation, future results, financial condition and/or prospects.

In October 2021, the UK Government published its Net Zero Strategy which sets out how the UK will deliver on its commitment to reach net-zero emissions by 2050 (defined as the point at which greenhouse gas emissions from sources are equal to removals by sinks as set out in Article 4 of the 2015 Paris Agreement). An independent review of the government's approach to delivering its net zero target to ensure it is pro-business and pro-growth was published in January 2023. The timing, content and implementation of the specific policies and proposals remain uncertain and are subject to continuous changes and developments. The transition to a net-zero economy across all sectors of the economy and markets in which NWM N.V. Group operates will be required to meet the goals of the UN Framework Convention on Climate Change (1994), the 2015 Paris Agreement, the UK's Net Zero Strategy, the Dutch Government's commitment to cutting The Netherlands' carbon emissions with 95% by 2050, compared to 1990 levels, and the European Green Deal initiatives, the EU Action Plan on Sustainable Finance and the European Climate Pact. The impacts of the extensive social, commercial, technological, policy and regulatory changes required to achieve transition remain uncertain but are expected to be significant, subject to continuous changes and developments and may be disruptive across the global economy and markets, especially if these changes do not occur in an orderly or timely manner or are not effective in reducing emissions sufficiently. Some sectors such as property, energy (including the oil and gas industry), mobility (including land transport, aviation, and shipping industries and the related manufacturing and infrastructure industry) and food (including the agriculture industry) are expected to be particularly impacted. The timing and pace of the transition to a net-zero economy is also uncertain, will depend on many factors and uncertainties and may be near term, gradual and orderly or delayed, rapid and disorderly, or a combination of these. There is also growing attention on the need for a 'just transition' and 'energy

justice' – in recognition that the transition to net zero should not disproportionately affect the most disadvantaged members of society.

In addition, NWM N.V. Group and its customers, suppliers and counterparties may face economic, financial and non-financial risks arising from broader sustainability issues such as: (i) risks relating to degradation of the environment, such as air, water and land pollution, water stress, nature and biodiversity loss and deforestation which may include for instance loss and/or decline of the state of nature (including the state of biodiversity); (ii) social matter-related risks (including violent conflicts, geopolitical implications, impacts on indigenous people, migration, human rights, diversity, equality and inclusion, the living wage, fair taxation and value chains); and (iii) governance-related risks (including board diversity, ethics, executive compensation and management structure).

Financial institutions, including NWM N.V. Group, are directly and indirectly exposed to multiple types of environmental risks (including nature and biodiversity-related risks) through their activities, including through the risk of default by clients. In addition to safeguards and interventions that focus on reducing negative impacts on the environment (including nature and biodiversity), there is also a growing need to implement solutions that focus on increasing positive impacts on environment (including nature and biodiversity) through nature-based solutions. In 2021, NatWest Group (including NWM N.V. Group) classified 'Biodiversity and Nature Loss' as an emerging risk for NatWest Group (including NWM N.V. Group) within its Risk Management Framework.

The Taskforce on Nature-Related Financial Disclosures (TNFD) is a global, market-led initiative with the mission to develop and deliver a risk management and disclosure framework for organisations to report and act on evolving nature-related risks and opportunities, with the ultimate aim of supporting a shift in global financial flows away from nature-negative outcomes and toward nature-positive outcomes. NatWest Group (including NWM N.V. Group) is a member of the Informal Working Group 2020 of TNFD and is a Forum Member since 2021.

Measuring the environmental related financial impacts (including impacts on nature and biodiversity related financial impacts) as a result of funding and financing activities as well as reporting on these is an evolving and complex area for the financial services industry which requires collaborative approaches with partners, stakeholders, peers and public sector bodies to help measure and mitigate the negative impacts of the activities which NatWest Group (including NWM N.V. Group) finances on the environment (including nature and biodiversity), as well as supporting the growing sector of nature-based solutions and habitat restoration and biodiversity markets. NatWest Group (including NWM N.V. Group) is in the early stages of developing its approach to assess, manage and mitigate environmental risks and by using emerging industry guidance such as the TNFD beta framework, NatWest Group (including NWM N.V. Group) is seeking to further its understanding of how NatWest Group's (including NWM N.V. Group's) business activities impact nature, the dependencies NWM N.V. Group and its customers have on nature, and the risks and opportunities nature can generate.

There is also increased scrutiny from NWM N.V. Group's employees, investors, customers, counterparties (including its suppliers), communities, regulators and other stakeholders regarding how businesses address social issues, including tackling inequality, working conditions, workplace health, safety and wellbeing, diversity and inclusion, data protection and management, workforce management, human rights and supply chain management which may impact NWM N.V. Group's employees, suppliers, customers, and their business activities or the communities in which they operate.

- These climate and sustainability-related risks may:
- adversely affect economic activity, asset pricing and valuations of financial instruments and, in turn, the wider financial system;
- impact economic activities directly (for example through lower corporate profitability or the devaluation of assets) or indirectly (for example through macro-financial changes);
- also affect the viability or resilience of business models over the medium to longer term, particularly those business models most vulnerable to climate and sustainability-related risks;
- trigger further losses stemming directly or indirectly from legal claims (liability risks) and reputational damage as a result of the public, customers, counterparties, suppliers and/or investors associating NWM N.V. Group or its customers with adverse climate and sustainability-related issues;
- intersect with and add further complexity and challenge to contributing to achieving NatWest Group's purpose-led strategy including climate ambitions and targets;
- be drivers of several different risk categories simultaneously and may exacerbate existing risks, including credit risk, operational risk (including business continuity), market risk (both traded and non-traded), liquidity and funding risk (for example, net cash outflows or depletion of liquidity buffers), pension risk and conduct risk; and
- if combined, may have a greater adverse effect on NWM N.V. Group's reputation, future results, financial condition and/or prospects.

If NWM N.V. Group fails in a timely manner to identify and address climate and sustainability-related risks and opportunities and changing regulatory and market expectations, or to appropriately identify, measure, manage and mitigate climate and sustainability-related physical, transition and liability risks and opportunities that NWM N.V. Group, its customers, counterparties and suppliers face, this may adversely affect NWM N.V. Group's reputation, future results, financial condition and/or prospects.

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

In February 2020, NatWest Group announced its ambition to become a leading bank in the UK helping to address the climate challenge. As part of the implementation of its climate ambitions, at NatWest Group's Annual General Meeting in April 2022,

ordinary shareholders passed an advisory 'Say on Climate' resolution endorsing NatWest Group's previously announced strategy to address climate change, including its ambitions to at least halve the climate impact of its financing activity by 2030, achieve alignment with the 2015 Paris Agreement and reach net zero by 2050 across its financed emissions, assets under management and operational value chain.

Furthermore, as part of its efforts to support the transition to a net-zero economy, NatWest Group has announced its plans to (i) stop lending and underwriting to companies with more than 15% of activities related to thermal and lignite coal, unless they had a Credible Transition Plan in line with the 2015 Paris Agreement in place by end of 2021; phase out of thermal and lignite coal for UK and non-UK customers who have UK coal production, coal-fired generation and coal-related infrastructure by 1 October 2024, with a full global phase out by 1 January 2030; (ii) to stop lending and underwriting to major oil and gas producers unless they had a Credible Transition Plan aligned with the 2015 Paris Agreement in place by the end of 2021; (iii) from February 2023 stop providing reserve based lending specifically for the purpose of financing oil and gas exploration, extraction and production for new customers, and, after the 31 December 2025 not to renew, refinance or extend existing reserve- based lending specifically for the purpose of financing oil and gas exploration, extraction and production; and (iv) stop providing reserve-based lending and borrowing base financing to upstream Oil and Gas companies specifically for the purpose of financing upstream assets located in Arctic or Antarctic Waters.

In December 2022, NatWest Group published its science-based targets validated by Science Based Target Initiative (SBTi) for its own operational footprint and for 79% of its loans and investments (debt securities and equity shares) on its 2019 balance sheet, at sector level.

NatWest Group has also announced and in the future it may also announce other climate ambitions and targets which support its overarching strategy to address climate change.

Making the changes necessary to contribute to achieving NatWest Group's strategy on addressing climate change, including achieving NatWest Group's climate ambitions and targets and executing its transition plan may adversely affect NWM N.V. Group's business and operations and will require reductions to its financed emissions and to its exposure to customers that do not align with a transition to net zero or do not have a credible transition plan in place. Increases in lending and financing activities may wholly or partially offset some or all these reductions, which may increase the extent of changes and reductions necessary. It is anticipated that achieving these reductions, together with the active management of climate and sustainability-related risks and other regulatory, policy and market changes, is likely to necessitate material and accelerated changes to NWM N.V. Group's business, operating model, its existing exposures and the products and services NWM N.V. Group provides to its customers (potentially on accelerated timescales) which may adversely affect NWM N.V. Group's ability to achieve its financial targets and generate sustainable returns.

NatWest Group (including NWM N.V. Group) also needs to ensure that its strategy and business model adapt to changing national and international standards, industry and scientific practices, regulatory requirements and market expectations regarding climate change, which remain under continuous development and are subject to different interpretations. There can be no assurance that these standards, practices, requirements and expectations will not be interpreted differently than what was the understanding of NatWest Group (including NWM N.V. Group) when defining its climate-related ambitions and targets or change in a manner that substantially increases the cost or effort for NatWest Group (including NWM N.V. Group) to achieve such ambitions and targets. In addition, NatWest Group's ambitions and targets may prove to be considerably more difficult or even impossible to achieve under such changing circumstances. This may be exacerbated if NatWest Group (including NWM N.V. Group) chooses or is required to accelerate its climate-related ambitions or targets as a result of (among other things) UK or international regulatory developments or stakeholder expectations.

NWM N.V. Group's ability to contribute to achieving NatWest Group's strategy to address climate change, including achieving its climate ambitions and targets, will depend to a large extent on many factors and uncertainties beyond NatWest Group's (including NWM N.V. Group's) control. These include the extent and pace of climate change, including the timing and manifestation of physical and transition risks, the macro-economic environment, the timely implementation and integration of adequate government policies, the effectiveness of actions of governments, legislators, regulators, businesses, investors, customers and other stakeholders to mitigate the impact of climate and sustainability-related risks, changes in customer behaviour and demand, changes in the available technology for mitigation, the roll-out of low carbon infrastructure and the availability of accurate, verifiable, reliable, consistent and comparable data. See also, '*There are significant challenges in accessing reliable, verifiable and comparable climate and other sustainability-related data due to availability, quality and other limitations, which contribute to the substantial uncertainties in accurately modelling and reporting on climate and sustainability information, as well as making appropriate important internal decisions*'.

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

Any delay or failure by NWM N.V. Group to contribute to setting, making progress against or meeting NatWest Group's climate-related ambitions and targets may adversely affect NWM N.V. Group, its reputation, future results, financial condition and/or prospects and may increase the climate and sustainability-related risks NWM N.V. Group faces.

There are significant limitations related to accessing reliable, verifiable and comparable climate and other sustainability-related data, including as a result of lack of standardisation, consistency and completeness which, alongside other factors, contribute to substantial uncertainties in accurately modelling and reporting on climate and sustainability information, as well as making appropriate important internal decisions.

Meaningful reporting of climate and sustainability-related risks and opportunities and their potential impacts and related metrics depends on access to accurate, reliable, consistent and comparable climate and sustainability-related data from counterparties or

customers. Data may not be generally available or, if available, may not be accurate, verifiable, auditable, reliable, consistent, or comparable. Any failure of NWM N.V. Group to incorporate climate and/or sustainability-related factors into its counterparty and customer data sourcing and accompanying analytics, or to collect or develop accurate, verifiable, auditable, reliable, consistent and comparable counterparty and customer data, may adversely affect NWM N.V. Group's ability to prepare meaningful reporting of climate and sustainability-related risks and opportunities, and it may adversely affect NWM N.V. Group's regulatory compliance, reputation, business and its competitive position.

In the absence of other sources, reporting of financed emissions by financial institutions, including NWM N.V. Group, is necessarily based on aggregated information developed by third parties that may be prepared in an inconsistent way using different methodologies, interpretations, or assumptions. NWM N.V. Group's climate and sustainability-related disclosures use a greater number and level of assumptions and estimates than many of its financial disclosures. These assumptions and estimates are highly likely to change over time, and, when coupled with the longer timeframes used in these climate and sustainability-related disclosures, make any assessment of materiality inherently uncertain.

In particular, in the absence of actual emissions monitoring and measurement, emissions estimates are based on industry and other assumptions that may not be accurate for a given counterparty or customer. There may also be data gaps that are filled using proxy data, such as sectoral averages, again developed in different ways. As a result, NWM N.V. Group's climate and sustainability-related disclosures may be amended, updated or restated in the future as the quality and completeness of NWM N.V. Group's data and methodologies continue to improve. These data quality challenges, gaps and limitations could have a material impact on NWM N.V. Group's ability to make effective business decisions about climate risks and opportunities, including risk management decisions, to comply with disclosure requirements and to monitor and report progress in meeting ambitions and targets.

Significant risks, uncertainties and variables are inherent in the assessment, measurement and mitigation of climate-related risks. These include data quality gaps and limitations mentioned above, as well as the pace at which climate science, greenhouse gas accounting standards and various emissions reduction solutions develop. In addition, there is significant uncertainty about how climate change and the transition to a net-zero economy will unfold over the coming years and decades and how and when climate-related risks will manifest. These timeframes are considerably longer than NWM N.V. Group's historical strategic, financial, resilience and investment planning horizons.

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

- climate scenarios are not predictions of what is likely to happen or what NatWest Group would like to happen, rather they explore the possible implications of different judgments and assumptions by considering a series of scenarios;
- climate scenarios do not provide a comprehensive description of all possible future outcomes;
- lack of specialist expertise in banks such that NWM N.V. Group needs to rely on third party advice, modelling, and data which is also subject to many limitations and uncertainties;
- immaturity of modelling of and data on climate-related risks on financial assets which will evolve rapidly in the coming years;
- the number of variables and forward-looking nature of climate scenarios which makes them challenging to back test and benchmark;
- the significant uncertainty as to how the climate will evolve over time, how and when governments, regulators, businesses, investors and customers respond and how those responses impact the economy, asset valuations, land systems, energy systems, technology, policy and wider society;
- the assumptions will be continually evolving with more data/information which may affect the baselines for comparability across reporting periods and impact internal and external verification processes; and
- the pace of the development of the methodologies across different sectors may be different and therefore it may be challenging to report on the whole balance sheet with regard to emissions.

Accordingly, these risks and uncertainties coupled with significantly longer timeframes make the outputs of climate-related risk modelling, including emission reduction targets and pathways, inherently more uncertain than outputs modelled for traditional financial planning cycles based on historical financial information. Furthermore, there is a lack of scientific, industry and regulatory consensus regarding the appropriate metrics, methodologies, modelling and standardised reporting to enable the assessment of the location, acuteness, and severity of environmental risks (including nature and biodiversity-related risks) and the monitoring and mitigation of these risks in the economy and financial system.

Capabilities within NWM N.V. Group to appropriately assess, model, report and manage climate and sustainability-related risks and impacts and the suitability of the assumptions required to model and manage climate and sustainability-related risks appropriately are developing. The development of NWM N.V. Group's capabilities to assess, model, report and manage the impacts of climate change and broader environmental risk (including nature and biodiversity-related risks) is in its early stages. Even when those capabilities are developed, the high level of uncertainty regarding any assumptions modelled, the highly subjective nature of risk measurement and mitigation techniques, incorrect or inadequate assumptions and judgments and data quality gaps and limitations may lead to inadequate risk management information and frameworks, or ineffective business

adaptation or mitigation strategies, which may adversely affect NWM N.V. Group's regulatory compliance, reputation, future results, financial condition and/or prospects.

A failure to implement effective climate change resilient governance, procedures, systems and controls in compliance with legal and regulatory expectations to manage climate and sustainability-related risks and opportunities could adversely affect NWM N.V. Group's ability to manage those risks.

The prudential regulation of climate-related risks is an important driver in how NWM N.V. Group develops its risk appetite for financing activities or engaging with counterparties. Legislative and regulatory authorities are publishing expectations as to how banks should prudently manage and transparently disclose climate-related and environmental risks under prudential rules.

European Union and the Netherlands

NWM N.V. Group is subject to regulatory developments in the EU and The Netherlands. In this regard, legislative and regulatory authorities in the EU and The Netherlands are publishing expectations as to how financial institutions should prudently manage and transparently disclose climate-related and environmental risks under prudential rules.

In November 2020, the European Central Bank ('ECB') published its 'Guide on climate-related and environmental risks' ('ECB Guide') which laid down the ECB's expectations for each supervised entity in relation to climate-related and environmental risks. All banks under the ECB's supervision will need to meet all supervisory expectations on climate and environmental risks outlined in the ECB Guide, including full integration in the Internal Capital Adequacy Assessment Process and stress testing, by the end of 2024. In June 2021, the European Banking Authority ('EBA') published its Report on Environmental, Social and Governance risk management and supervision and in December 2021 the DNB published a paper titled 'Towards a sustainable balance' which aligns with the ECB publication of November 2021 on 'The state of climate and environmental risk management in the banking sector'. Both documents highlight the prudential view and expectations towards financial institutions regarding managing of climate, environmental and social risks as part of their strategy, governance, risk management and reporting practices and are driving the supervisory dialogue. In 2022, the ECB launched the thematic review, which involved conducting deep dives into institutions' climate-related and environmental risk strategies, as well as their governance and risks management frameworks and processes. In November 2022, the ECB published the results of its 'Good practices for climate-related and environmental risk management' which shares observations and good practices illustrating the different ways that significant institutions can align their practices with the supervisory expectations set out in the ECB Guide.

In April 2020, the DNB published its 'Good Practices on Integration of Climate Risks for Banks' document in which it sets out the supervisory expectation that banks (including NWM N.V.) should incorporate climate-related risks into their governance and risk management arrangements in line with the principle of proportionality. In order to achieve this, the DNB provides several non-binding 'good practices' that banks could adhere to, including:

- incorporating an organisation-wide strategic approach toward climate-related risks, along with the integration of climate-related considerations in policy framework;
- embedding the identification, assessment, mitigation and monitoring of climate change related risks in banks' risk management framework; and
- disclosing the carbon footprint of lending and investment portfolio in the annual report.

In October 2022, the DNB published a consultation to improve and increase its guidance on integration and management of climate risk. In addition, the DNB has confirmed that it will perform more stress tests to assess the impact of climate change on the financial sector. On 8 July 2022, the ECB published the results of its supervisory stress test which show that banks do not yet sufficiently incorporate climate risk into their stress-testing frameworks and internal models, despite some progress, and banks must urgently step up efforts to measure and manage climate risk, closing the current data gaps and adopting good practices that are already present in the sector according to the ECB.

In June 2020, the Dutch Authority for the Financial Markets in the Netherlands (Stichting Autoriteit Financiële Markten ('AFM')) published its position paper on sustainability. In this position paper the AFM describes what it expects from market parties when it comes to sustainability and how the AFM will be supervising this. The AFM confirms, amongst others, that:

- a sustainable economy and society is a supervisory priority of the AFM and is increasingly becoming an integral part of its supervision strategy; and
- it expects market participants to integrate sustainability aspects in a responsible and careful manner in their financial products and services.

In order to ensure that the same high level of supervisory standards is applied consistently among the institutions that DNB supervise, to raise awareness of climate-related and environmental risks, and to better prepare Less Significant Institutions (LSIs) – such as NWM N.V. – for the future, DNB stated its intention to use the ECB Guide as a basis for its supervisory engagements with LSIs from 2021 in a proportionate manner. On 2 February 2021, the DNB requested the Dutch financial institutions to do a self-assessment on climate-related, environmental and social risks, indicating that these risks will feature in prudential supervision with increasing prominence going forward. The results of the ECB stress test published on 8 July 2022 further increased the focus on these risks.

In addition, NWM N.V. Group and its branches will continue to be, or will potentially be, subject to an increasing array of EU/EEA climate and sustainability-related legal and regulatory requirements, such as the EU Taxonomy, the ECB Guide, the EU Corporate Sustainability Reporting Directive, the EU Corporate Sustainability Due Diligence Directive, the EU Green Bond Standard, the EBA's Pillar 3 disclosures on ESG risks and other legal and regulatory requirements.

The UK

In April 2019, the PRA published a supervisory statement ('SS 3/19') with particular focus on the management of financial risks from climate change with respect to governance, risk management, scenario analysis and disclosures. In response to the PRA's SS 3/19, following the submission of initial plans in October 2019, on 8 October 2020 NatWest Group provided the PRA with an update to its original plan, noting that the COVID-19 pandemic had disrupted some elements of its original plan and, as a result, the updated plan would require additional operating cycles reaching into 2022 and beyond to prove embedding. Throughout 2022, NatWest Group provided the PRA with updates on how it had addressed the commitments made in its October 2020 plan, noting the delivery of a first generation, largely qualitative in nature, approach to the supervisory requirements. In 2022, the PRA has also started actively supervising firms against their supervisory expectations, and it issued another 'Dear CEO letter' providing a summary of capabilities, which the PRA would expect firms to be able to demonstrate, setting out thematic observations on firms' levels of embeddedness, and providing examples of effective practices identified.

In June 2021, the Bank of England launched its 2021 Biennial Exploratory Scenario ('2021 CBES') to stress test the resilience of the current business models of the largest banks, insurers and the financial system to the physical and transition risks from climate change under three climate scenarios. NatWest Group delivered its first 2021 CBES submission to the PRA in October 2021 and its submission to the second phase of the 2021 CBES exercise in the first quarter of 2022. In May 2022, the PRA published the results of the 2021 CBES which has shown that UK banks, including NatWest Group (including NWM N.V. Group), need to do more to understand and manage their exposure to climate risks and that the lack of available data on corporates' current emissions and future transition plans is a collective issue affecting all participating firms. In July 2022, the participating banks in the 2021 CBES exercise were invited to discuss methodologies and challenges with regards to climate risk scenario analysis.

In October 2022, the Bank of England and the PRA held a conference to facilitate discussion on the complex issues associated with adjusting the capital framework to take account of climate-related financial risks with the aim of providing more guidance on its approach to climate and capital by the end of 2022. The Bank of England does not think capital frameworks should be used to address the causes of climate change. However, as set out in the PRA's Climate Change Adaptation Report 2021, and, as with any other risk, it does think the capital framework could be a useful tool within the broader regulatory frameworks to ensure that PRA-regulated firms are resilient to climate risks.

Any failure of NatWest Group (including NWM N.V. Group) to fully and timely embed climate related risks into its risk management practices and framework to appropriately identify, measure, manage and mitigate the various climate- related physical and transition risks and apply the appropriate product governance in line with applicable legal and regulatory requirements and expectations, may adversely affect NWM N.V. Group's regulatory compliance, prudential capital requirements, liquidity position, reputation, future results, financial condition and/or prospects.

Climate and sustainability-related disclosures are a rapidly evolving area and increasingly expose NWM N.V. Group to risk in the face of legal and regulatory expectations, regulatory enforcement and class action risk. NatWest Group and its subsidiaries (including NWM N.V. Group) currently are, and in the future will, be subject to increasing entity-wide climate-related and other non-financial disclosure requirements.

In the UK, as from February 2022, NatWest Group (the ultimate parent company of NWM N.V. Group) is required to provide enhanced climate-related disclosures consistent with the Task Force on Climate Related Financial Disclosures ('TCFD') recommendations to comply with the FCA Policy Statement on the Listing Rules (PS 20/17) that require commercial companies with a UK premium listing – such as NatWest Group to make climate-related disclosures, consistent with TCFD, on a 'comply or explain' basis.

By its Policy Statement 'Enhancing climate-related disclosures by standard listed companies' (PS 21/23), the FCA has confirmed its final policy position set forth in PS 20/17, extended the scope of issuers that are subject to the new Listing Rules and added guidance provisions on transition plan disclosure (for issuers in scope of both the PS 20/17 and the new PS 21/23 rules). NWM N.V. Group is currently not in scope of the FCA Policy Statement (PS 20/17) or Policy Statement (PS21/23) and therefore, it is not required to publish climate-related disclosures consistent with the TCFD at the company level. As required by the FCA Policy Statement (PS 20/17) and Policy Statement (PS 21/23), NatWest Group publishes climate-related disclosures that it believes are consistent with the TCFD for the consolidated group, including NWM N.V. Group.

In addition, as of 5 April 2022, NatWest Group is also required to prepare mandatory climate-related financial disclosures pursuant to The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022.

Furthermore, in October 2022, the FCA published a Consultation Paper on 'Sustainability Disclosure Requirements (SDR) and investment labels' (CP 22/20) which proposes that the FCA will require all regulated firms to ensure that from June 2023 the naming and marketing of financial products and services in the UK is clear, fair and not misleading, and consistent with the sustainability profile of the products or services, i.e. proportionate and not exaggerated.

Misrepresenting or over-emphasising the extent to which an investment, strategy or other type of product takes into account environmentally friendly, sustainable or ethical features and concerns, using misleading labels and language in relation to such products and/or omitting material information about NWM N.V. Group's contribution to the climate crisis (including its direct or indirect contribution to greenhouse gas emissions), or other sustainability related issues could potentially result in complaints, regulatory intervention, claims and/or litigation and reputational damage.

Any failure of NWM N.V. Group to implement robust and effective climate and sustainability-related disclosure governance and to embed appropriate product governance policies, procedures and controls to make accurate public statements and claims about how environmentally friendly, sustainable or ethical NWM N.V. Group's products and services are and to apply these in line with

applicable legal and regulatory requirements and expectations, may adversely affect NWM N.V. Group's regulatory compliance and reputation and could give rise to litigation.

Increasing levels of climate, environmental, human rights and other sustainability-related laws, regulation and oversight which are constantly evolving may adversely affect NWM N.V. Group.

There are an increasing number of EU, UK, Dutch and other regulatory and legislative initiatives to address issues around climate change (including promoting the transition to a net-zero economy), environment (including nature and biodiversity), human rights and other sustainability-related risks and opportunities. The DNB and the AFM are also increasingly focused on climate change and sustainability and have announced good practices and supervisory expectations relating to these topics. As a result, an increasing number of laws, regulations and legislative actions, including proposals, guidance, policy and regulatory initiatives many of which have been introduced or amended recently and are subject to further changes, is likely to affect the financial sector and the wider economy.

Many of these initiatives are focused on developing standardised definitions and criteria for green and sustainable criteria of assets and liabilities, integrating climate change and sustainability into decision-making and customers' access to green and sustainable financial products and services which may have a significant impact on the services provided by NWM N.V. Group and its subsidiaries, and its associated credit, market and financial risk profile. They could also impact NWM N.V. Group's recognition of its climate and sustainable funding and financing activity and may adversely affect NWM N.V. Group's ability to achieve its strategy and climate and sustainable funding and financing ambitions.

There is a growing divergence between UK, EU/EEA, Dutch and US climate and sustainability-related legal and regulatory requirements which may result in NWM N.V. Group becoming subject to legal and regulatory expectations different from the ones applicable to NatWest Group (including NWM Group) and/or any of its subsidiaries and/or NWM N.V. Group not meeting regulatory requirements, investors' expectations and may increase the cost of doing business (including increased operating costs) and contentious regulatory and litigation risk.

NatWest Group (including NWM N.V. Group) is also participating in various voluntary carbon reporting and other standard setting initiatives for disclosing climate and sustainability-related information, many of which have differing objectives and methodologies and are at different stages of development in terms of how they apply to financial institutions.

Compliance with these developing and evolving climate and sustainability-related legal and regulatory requirements is likely to require NWM N.V. Group to implement significant changes to its business models, products and other governance, internal controls over financial reporting, disclosure controls and procedures, modelling capability and risk management systems, which may increase the cost of doing business, and entail additional change risk and increased compliance, regulatory sanctions and litigation (including settlements) costs.

Failure to implement and comply with these legal and regulatory requirements or emerging best practice expectations may have a material adverse effect on NWM N.V. Group's regulatory compliance and may result in regulatory sanctions, reputational damage and investor disapproval each of which may adversely affect NWM N.V. Group's future results, financial condition and/or prospects.

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

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

These risks may arise, for example, from claims pertaining to: (i) failure to meet obligations, targets or commitments relating to, or to disclose accurately, or provide updates on material climate and/or sustainability-related risks, or otherwise provide fair, balanced and appropriate disclosure to investors, customers, counterparties and other stakeholders; (ii) conduct, mis-selling and customer protection claims, including claims which may relate to alleged insufficient product understanding, unsuitable product offering and /or reliance upon information provided by NWM N.V. Group or claims alleging unfair pricing of climate-related products, for example in relation to products where limited liquidity or reliable market data exists for benchmarking purposes or which may be impacted by future climate policy uncertainty or other factors; (iii) marketing that portrays products, securities, activities or policies as having positive climate, environmental or sustainable outcomes to an extent that may not be the case, or may not adequately be qualified and/or omits material information about NWM N.V. Group's contribution to the climate crisis and/or its direct / indirect contribution to greenhouse gas emissions or other sustainability-related issues; (iv) damages claims under various tort theories, including common law public nuisance claims, or negligent mismanagement of physical and/or transition risks; (v) alleged violations of officers', directors' and other fiduciaries' duties, for example by financing various carbon-intensive, environmentally harmful or otherwise highly exposed assets, companies, and industries; (vi) changes in the understanding of what constitutes positive climate, environmental or sustainable outcomes as a result of developing climate science, leading to discrepancy between current product offerings and investor and/or market and/or broader stakeholder expectations; (vii) any weaknesses or failures in specific systems or processes associated particularly with climate, environmental or sustainability linked products, and/or human rights due diligence, including any failure in the timely implementation, onboarding and/or updating of such systems or processes; or (viii) counterparties, collaborators, customers to whom NatWest Group (including NWM N.V. Group) provides services and third parties in NWM N.V. Group's value chain who act, or fail to act, or undertake due diligence, or apply appropriate risk management and product governance in a manner that may adversely affect NatWest Group's (including NWM N.V. Group) reputation or sustainability credentials.

Furthermore, there is a risk that shareholders, campaign groups, customers and special interest groups could seek to take legal action against NWM N.V. Group for financing or contributing to climate change, environmental degradation and human rights violations and for not supporting the principles of 'just transition' (i.e. maximising the social benefits of the transition, mitigating the social risks of the transition, empowering those affected by the change, anticipating future shifts to address issues up front and mobilising investments from the public and private sectors).

There is a risk that as environmental and climate science develop and societal understanding of these issues increases and deepens, courts, regulators and enforcement authorities may apply the then current understandings of environmental, climate and broader sustainability-related matters retrospectively when assessing claims about historical conduct or dealings of financial institutions, including NWM N.V. Group. See also, '*NWM N.V. Group and NWM Plc are exposed to the risk of various litigation matters, regulatory and governmental actions and investigations as well as remedial undertakings, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on NWM N.V. Group*'.

These potential litigation, conduct, enforcement and contract liability risks may have a material adverse effect on NatWest Group's ability to achieve its strategy, including its climate ambition, and may adversely affect NWM N.V. Group's reputation, future results, financial condition and/or prospects.

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

ESG ratings from agencies and data providers which rate how NatWest Group or NWM Group (including NWM N.V. Group) manage environmental, social and governance risks are increasingly influencing investment decisions pertaining to NatWest Group's, NWM Group's and/or NWM N.V. Group's and/or their subsidiaries' securities or being used as a basis to label financial products and services as environmentally friendly or sustainable. ESG ratings are (i) unsolicited; (ii) subject to the assessment and interpretation by the ESG rating agencies; (iii) provided without warranty; (iv) not a sponsorship, endorsement, or promotion of NatWest Group (including NWM N.V. Group) by the relevant rating agency; and (v) may depend on many factors some of which are beyond NatWest Group's and NWM N.V. Group's control (e.g. any change in rating methodology). In addition, NWM N.V. Group offers and sells products and services to customers and counterparties based exclusively or largely on a rating by an unregulated ESG rating agency. ESG rating agencies, at this stage, are not subject to any specific regulatory or other regime or oversight (although there are proposals by regulators in different jurisdictions to regulate rating agencies and data providers). Regulators have expressed concern that harm may arise from potential conflicts of interest within ESG rating and review or opinion providers and there is a lack of transparency in methodologies and data points, which renders ratings and reviews incomparable between agencies or providers. There is currently no market consensus on what precise attributes are required for a particular asset to be classified as 'ESG'. Any reduction in the ESG ratings of NatWest Group (including NWM N.V. Group), or a regulatory sanction or enforcement action involving an ESG rating agency used by a NWM N.V. Group entity, could have a negative impact on NWM N.V. Group's reputation, could influence investors' risk appetite for NWM N.V. Group's and/or its subsidiaries' securities, particularly ESG securities, could increase the cost of issuing securities for NWM N.V. Group and/or its subsidiaries and could affect a customer's willingness to deal with NWM N.V. Group.

Operational and IT resilience risk

Operational risks (including reliance on third party suppliers and outsourcing of certain activities) are inherent in NWM N.V. Group's businesses.

Operational risk is the risk of loss or disruption resulting from inadequate or failed internal processes, procedures, people or systems, or from external events, including legal and regulatory risks. NWM N.V. Group operates in a number of countries, offering a diverse range of products and services supported directly or indirectly by third party suppliers. As a result, operational risks or losses can arise from a number of internal or external factors (including, for example, payment errors or financial crime and fraud), for which there is continued scrutiny by third parties on NWM Group's compliance with financial crime requirements; see '*NWM N.V. Group and NWM Plc are exposed to the risk of various litigation matters, regulatory and governmental actions and investigations as well as remedial undertakings, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on NWM N.V. Group*'). These risks are also present when NWM N.V. Group relies on NatWest Group, NWM Group, critical service providers (suppliers) or vendors to provide services to it or its clients, as is increasingly the case as NWM N.V. Group outsources certain activities, including with respect to the implementation of new technologies, innovation and responding to regulatory and market changes. Furthermore, NWM N.V. is subject to the EBA guidelines on outsourcing arrangements. If the systems and services provided by NatWest Group, NWM Group or any third party do not comply with such EBA requirements, there is a risk of increase in operational and compliance costs, which may negatively affect NWM N.V. Group's business continuity and reputation.

Operational risks continue to be heightened as a result of the implementation of NatWest Group's purpose-led strategy, and the organisational and operational changes involved, including NatWest Group's phased withdrawal from RoI, NatWest Group's current cost-controlling measures, the NWM Refocusing, the creation of the C&I business segment of which NWM forms part, the progression towards working as One Bank across NatWest Group to serve customers and conditions affecting the financial services industry generally (including macro-economic and other geo-political developments) as well as the legal and regulatory uncertainty resulting therefrom. It is unclear as to how the future ways of working may evolve, including in respect of how working practices may develop, or how NWM N.V. Group will evolve to best serve its customers. Any of the above may exacerbate operational risks including NWM N.V. Group's ability to maintain effective internal controls and governance frameworks.

In recent years, NWM Group (including NWM N.V. Group) has materially increased its dependence on NatWest Bank Plc for numerous critical services and operations, including without limitation, property, finance, accounting, treasury, risk, regulatory compliance and reporting, human resources, and certain other support and administrative functions. In addition, NWM N.V. Group has materially increased its dependence on NWM Plc for numerous critical services similar to those outlined above and for certain

sales activities, which due to their complexities could potentially trigger regulatory, tax, reputational, financial crime and conduct risks. A failure by NatWest Bank Plc or NWM Plc to adequately supply these services may expose NWM N.V. Group to critical business failure risk, increased costs and other liabilities. These and any increases in the cost of these services may adversely affect NWM N.V. Group's future results, financial condition and/or prospects.

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

NWM N.V. Group is subject to increasingly sophisticated and frequent cyberattacks.

NWM N.V. Group experiences a constant threat from cyberattacks across the entire NatWest Group (including NWM N.V. Group and against NatWest Group and NWM N.V. Group's supply chain, reinforcing the importance of due diligence of close working relationship with, the third parties on which NWM N.V. Group relies. NWM N.V. Group is reliant on technology, against which there is a constantly evolving series of attacks, that are increasing in terms of frequency, sophistication, impact and severity. As cyberattacks evolve and become more sophisticated, NWM N.V. Group is required to continue to invest in additional capability designed to defend against emerging threats. In 2022, NWM N.V. Group and its supply chain were subjected to a small number of Distributed Denial of Service ('DDOS') and ransomware attacks, which are a pervasive and significant threat to the financial services industry. The focus is to manage the impact of the attacks and sustain availability of services for NWM N.V. Group's customers. NWM N.V. Group continues to invest significant resources in the development and evolution of cyber security controls that are designed to minimise the potential effect of such attacks.

Hostile attempts are made by third parties to gain access to, introduce malware (including ransomware) into and exploit vulnerabilities of NWM N.V. Group's IT systems or NWM N.V.'s third party providers. NWM N.V. Group has information and cyber security controls in place to seek to minimise the impacts of any such attacks, which are subject to review on a continuing basis, but given the nature of the threat, there can be no assurance that such measures will prevent the potential negative impact of any such attacks from occurring. See also, '*— NWM N.V. Group's operations are highly dependent on its complex IT systems, and any IT failure could adversely affect NWM N.V. Group*'.

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

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

NWM N.V. Group expects greater regulatory engagement, supervision and enforcement to continue at a high level in relation to its overall resilience to withstand IT and IT-related disruption, either through a cyberattack or some other disruptive event. Such increased regulatory engagement, supervision and enforcement is uncertain in relation to the scope, cost, consequence and the pace of change, which may adversely affect NWM N.V. Group's future results, financial condition and/or prospects. Due to NWM N.V. Group's reliance on technology and the increasing sophistication, frequency and impact of cyberattacks, such attacks may adversely affect NWM N.V. Group.

In accordance with the Data Protection Act 2018 and the European Union Withdrawal Act 2018, the Data Protection, Privacy and Electronic Communications (Amendments Etc.) (EU Exit) Regulations 2019, as amended by the Data Protection, Privacy and Electronic Communications (Amendments Etc.) (EU Exit) Regulations 2020 ('UK Data Protection Framework'), NWM N.V. Group is required to ensure it implements timely appropriate and effective organisational and technological safeguards against unauthorised or unlawful access to the data of NWM N.V. Group, its clients and its employees. In order to meet this requirement, NWM N.V. Group relies on the effectiveness of its internal policies, controls and procedures to protect the confidentiality, integrity and availability of information held on its IT systems, networks and devices as well as with third parties with whom NWM N.V. Group interacts. A failure to monitor and manage data in accordance with the UK Data Protection Framework, the EU GDPR and EBA requirements of the applicable legislation may result in financial losses, regulatory fines and investigations and associated reputational damage. In addition, whilst NWM N.V. Group takes measures to prevent, detect and minimize attacks, NWM N.V. Group's systems, and those third-party providers, are subject to frequent cyberattacks.

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

NWM N.V. Group relies on the effective use of accurate data to support, monitor, evaluate, manage and enhance its operations and deliver its strategy. Investment is being made in data tools and analytics, including raising awareness around data ethics usage and privacy across NWM N.V. Group. The availability and accessibility of current, complete, detailed, accurate and, wherever possible, machine-readable customer segment and sub-sector data, together with appropriate governance and

accountability for data, is fast becoming a critical strategic asset, which is subject to increased regulatory focus. Failure to have or be able to access that data or the ineffective use or governance of that data could result in a failure to manage and report important risks and opportunities or satisfy customers' expectations including the inability to deliver products and services. This could also result in a failure to deliver NWM N.V. Group's strategy and could place NWM N.V. Group at a competitive disadvantage by increasing its costs, inhibiting its efforts to reduce costs or its ability to improve its systems, controls and processes which could result in a failure to deliver NWM N.V. Group's strategy. These data weaknesses and limitations, or the unethical or inappropriate use of data, and/or non-compliance with data protection laws could give rise to, conduct and litigation risks and may increase the risk of operational challenges, losses, reputational damage or other adverse consequences due to inappropriate models, systems, processes, decisions or other actions. Any of the above may lead to key business processes being negatively impacted by inappropriately managed data, which could lead to material financial, customer and regulatory impacts.

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

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

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

This increases the cost of hiring, training and retaining diverse skilled personnel. In addition, certain economic, market and regulatory conditions and political developments may reduce the pool of candidates for key management and non-executive roles, including non-executive directors with the right skills, knowledge and experience, or increase the number of departures of existing employees. Moreover, a failure to foster a diverse and inclusive workforce may adversely affect NWM Group's employee engagement and the formulation and execution of its strategy and could also have a negative effect on its reputation with customers, investors and regulators.

Some of NWM N.V. Group's employees are represented by employee representative bodies, including a works council. Engagement with its employees and such bodies is important to NWM N.V. Group in maintaining good employee relations. Any breakdown of these relationships may adversely affect NWM N.V. Group.

NWM N.V. Group's operations are highly dependent on its complex IT systems, and any IT failure could adversely affect NWM N.V. Group.

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

Individually or collectively, any critical system failure, material loss of service availability or material breach of data security could cause significant damage to (i) important business services across NWM N.V. Group and (ii) NWM N.V. Group's ability to provide services to its clients, which could result in reputational damage, significant compensation costs and regulatory sanctions (including fines resulting from regulatory investigations) or a breach of applicable regulations and could affect NWM N.V. Group's regulatory approvals, competitive position, business and brands, which could undermine its ability to attract and retain customers. NWM N.V. Group outsources certain functions as it innovates and offers new digital solutions to its clients to meet the demand for online and mobile banking. Outsourcing, alongside hybrid working patterns of NWM N.V. Group employees heighten the above risks.

NWM N.V. Group uses IT systems that enable remote working interface with third-party systems, and NWM N.V. Group could experience service denials or disruptions if such systems exceed capacity or if a third-party system fails or experiences any interruptions, all of which could result in business and customer interruption and related reputational damage, significant compensation costs, regulatory sanctions and/or a breach of applicable regulations.

In 2022, NWM N.V. Group continued to make considerable investments to further simplify, upgrade and improve its IT and technology capabilities (including migration of certain services to cloud platforms). As part of the NWM Refocusing, NWM Group, including NWM N.V. Group, also continues to develop and enhance digital services for its customers and seeks to improve its competitive position through enhancing controls and procedures and strengthening the resilience of services including cyber security. Any failure of these investment and rationalisation initiatives to achieve the expected results, due to cost challenges or otherwise, may adversely affect NWM Group's operations, its reputation and ability to retain or grow its client business or adversely affect its competitive position, thereby negatively impacting NWM N.V. Group. See also, '*— NWM Group (including NWM N.V. Group) has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy and NatWest Group's recent creation of its C&I business segment (of which NWM Group forms part) and may continue to be subject to significant structural and other change*'.

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

Risk management is an integral part of all of NWM N.V. Group's activities and integral to the delivery of its long-term strategy. NatWest Group's Enterprise-Wide Risk Management Framework sets out NWM Group's (including NWM N.V. Group) approach for managing risk within NWM N.V. Group including in relation to risk governance and risk appetite. A failure to adhere to this framework, or any material weaknesses or deficiencies in the framework's controls and procedures, may adversely affect NWM N.V. Group's financial condition and strategic delivery including in relation to operating within agreed risk appetite statements and accurate reporting on risk exposures.

Financial risk management is highly dependent on the use and effectiveness of internal stress tests and models and ineffective risk management may arise from a wide variety of factors, including lack of transparency or incomplete risk reporting, manual processes and controls, inaccurate data, inadequate IT systems, unidentified conflicts or misaligned incentives, lack of accountability control and governance, incomplete risk monitoring (including trade surveillance) and failures of systems to properly process all relevant data, risks related to unanticipated behaviour or performance in algorithmic trading and management or insufficient challenges or assurance processes or a failure to timely complete risk remediation projects. Failure to manage risks effectively, or within regulatory expectations, could adversely affect NWM N.V. Group's reputation or its relationship with its regulators, clients, shareholders or other stakeholders.

In addition, financial crime risk management is dependent on the use and effectiveness of financial crime assessment, systems and controls. Weak or ineffective financial crime processes and controls may risk NatWest Group inadvertently facilitating financial crime which may result in regulatory investigation, sanction, litigation, fines and reputational damage. Financial crime continues to evolve, whether through fraud, scams, cyber-attacks or other criminal activity. NatWest Group (and NWM N.V. Group) has made and continues to make significant, multi-year investments to strengthen and improve its overall financial crime control framework with prevention systems and capabilities. As part of its ongoing programme of investment, there is current and future investment planned to further strengthen financial crime controls over the coming years, including investment in new technologies and capabilities to further enhance customer due diligence, transaction monitoring, sanctions and anti-bribery and corruption systems. A number of NWM N.V. Group's financial crime controls are operated by NatWest Group on behalf of NWM N.V. Group.

NWM N.V. Group's operations are inherently exposed to conduct risks, which include business decisions, actions or reward mechanisms that are not responsive to or aligned with NWM N.V. Group's regulatory obligations, client needs or do not reflect NWM N.V. Group's customer-focused strategy, ineffective product management, unethical or inappropriate use of data, information asymmetry, implementation and utilisation of new technologies, outsourcing of customer service and product delivery, the possibility of mis-selling of financial products and mishandling of customer complaints. Some of these risks have materialised in the past and ineffective management and oversight of conduct risks may lead to further remediation and regulatory intervention or enforcement.

NWM N.V. Group's businesses are also exposed to risks from employee misconduct including non-compliance with policies and regulations, negligence or fraud (including financial crimes and fraud), any of which could result in regulatory fines or sanctions and serious reputational or financial harm to NWM N.V. Group. Remote working arrangements for NWM N.V. Group employees continues to place heavy reliance on the IT systems that enable remote working and may place additional pressure on NWM N.V. Group's ability to maintain effective internal controls and governance frameworks. Remote working arrangements are also subject to regulatory scrutiny to ensure adequate recording, surveillance and supervision of regulated activities and compliance with regulatory requirements and expectations, including requirements to: meet threshold conditions for regulated activities; ensure the ability to oversee functions (including any outsourced functions); ensure no detriment is caused to customers; and ensure no increased risk of financial crime.

NWM N.V. Group has been seeking to embed a strong risk culture across the organisation and has implemented policies and allocated new resources across all levels of the organisation to manage and mitigate conduct risk and expects to continue to invest in risk management, including the ongoing development of a NatWest Group risk management strategy in line with regulatory expectations. However, such efforts may not insulate NWM N.V. Group from future instances of misconduct and no assurance can be given that NWM N.V. Group's strategy and control framework will be effective. See also, '*— NWM Group (including NWM N.V. Group) has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy and NatWest Group's recent creation of its C&I business segment (of which NWM Group forms part) and may continue to be subject to significant structural and other change*'. Any failure in NWM N.V. Group's risk management framework may adversely affect NWM N.V. Group and its financial condition through reputational and financial harm and may result in the inability to achieve its strategic objectives for its clients, employees and wider stakeholders.

There is also the risk that the risk management frameworks, as developed by NatWest Group and NWM Group, may not be properly adapted for NWM N.V.'s specific circumstances. Ahead of a regulatory audit a self-identified governance shortfall has been identified related to regulatory reporting process management. Furthermore, NWM N.V. has policies and controls in place to prevent and detect financial crime and has invested in technology and capability to enhance financial crime controls. Although NWM N.V. head office is located in Amsterdam (where NWM N.V. risk management function is based), it also operates branches in France, Germany, Ireland, Italy, Sweden and Spain (although the branch in Spain was closed in mid-2022). Should such risk policies and controls be inadequate to combat financial crime, particularly in NWM N.V., branches (where there is less direct supervision) there could be an adverse impact on NWM N.V. One branch location, Germany, is currently under audit of their regulator (BaFin), the outcome of this audit is difficult to predict but may result in findings, impacting the current governance and outsourcing structure of NWM N.V. Group.

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

Reputational risk relates to stakeholder and public perceptions of NWM N.V. Group arising from an actual or perceived failure to meet stakeholder or the public's expectations, including with respect to NatWest Group's purpose-led strategy and related targets,

NWM Group's strategy, the creation of the C&I business segment, the progression towards working as One Bank across the NatWest Group to serve customers, or due to any events, behaviour, action or inaction by NWM N.V. Group, its employees or those with whom NWM N.V. Group is associated. See also, '*NWM N.V. Group's businesses are subject to substantial regulation and oversight, which are constantly evolving and may adversely affect NWM N.V. Group.*' This includes harm to its brand, which may be detrimental to NWM N.V. Group's business, including its ability to build or sustain business relationships with clients, and may cause low employee morale, regulatory censure or reduced access to, or an increase in the cost of, funding.

Reputational risk may arise whenever there is, or there is perceived to be, a material lapse in standards of integrity, compliance, customer or operating efficiency and may adversely affect NWM N.V. Group's ability to attract and retain clients. In particular, NWM N.V. Group's ability to attract and retain clients may be adversely affected by factors including: negative public opinion resulting from the actual or perceived manner in which NWM N.V. Group or any other member of NatWest Group conducts or modifies its business activities and operations, media coverage (whether accurate or otherwise), employee misconduct, NWM N.V. Group's financial performance, IT systems failures or cyberattacks, data breaches, financial crime and fraud, the level of direct and indirect government support for NatWest Group plc, or the actual or perceived practices in the banking and financial industry in general, or a wide variety of other factors.

Modern technologies, in particular online social networks and other broadcast tools that facilitate communication with large audiences in short timeframes and with minimal costs, may also significantly increase and accelerate the impact of damaging information and allegations.

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

Legal, regulatory and conduct risk

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

NWM N.V. Group is subject to extensive laws, regulations, guidelines, corporate governance practice and disclosure requirements, administrative actions and policies in each jurisdiction in which it operates, which represents ongoing compliance and conduct risks. Many of these have been introduced or amended recently and are subject to further material changes, which may increase compliance and conduct risks, particularly as EU/EEA and UK laws diverge as a result of Brexit. NWM Group (NWM N.V. Group's parent) expects government and regulatory intervention in the financial services industry to remain high for the foreseeable future.

In particular, NWM N.V. Group is subject to (i) direct prudential supervision by the DNB and indirect prudential supervision of the ECB; (ii) direct market conduct supervision by the AFM and indirect market conduct supervision by the European Securities and Markets Authority (ESMA); and (iii) supervision by the DNB, as home state supervisor, in respect of NWM N.V. Group's branch offices in France, Germany, Ireland, Italy, Sweden and Spain (although the branch in Spain was closed in mid-2022), and to supervision by local regulators in these jurisdictions, as host state supervisors, in respect of certain regulatory aspects of NWM N.V. Group's branch offices' operations that are subject to host state supervision (e.g. anti-money laundering laws). NWM N.V. Group expects government and regulatory intervention in the financial services industry to remain high for the foreseeable future.

Prudential regulatory requirements:

In recent years, regulators and governments have focused on reforming the prudential regulation of the financial services industry and the manner in which the business of financial services is conducted. Measures have included: enhanced capital, liquidity and funding requirements, implementation of the UK ring-fencing regime, implementation and strengthening of the recovery and resolution framework applicable to financial institutions in the Netherlands, the UK, the EU and the US, financial industry reforms (including in respect of MiFID II), corporate governance requirements, restrictions on the compensation of senior management and other employees, enhanced data protection and IT resilience requirements, financial market infrastructure reforms (including enhanced regulations in respect of the provision of 'investment services and activities'), enhanced regulations in respect of the provision of 'investment services and activities', and increased regulatory focus in certain areas, including conduct, consumer protection, competition and disputes regimes, anti-money laundering, anti-corruption, anti-bribery, anti-tax evasion, payment systems, sanctions and anti-terrorism laws and regulations. This has resulted in NWM N.V. Group facing greater regulation and scrutiny in the Netherlands and the other countries in which it operates.

In addition, there is significant oversight by competition authorities of the jurisdictions in which NWM N.V. Group operates. The competitive landscape for banks and other financial institutions in Europe, the UK and the US is rapidly changing. Recent regulatory and legal changes have and may continue to result in new market participants and changed competitive dynamics in certain key areas. Competition authorities, including the CMA, are currently also looking at and focusing more on how they can support competition and innovation in digital and other markets. Recent regulatory changes, proposed (such as US proposals to increase regulation around cybersecurity) or future developments and heightened levels of public and regulatory scrutiny in Europe, the UK, Asia and the US have resulted in increased capital, funding and liquidity requirements, changes in the competitive landscape, changes in other regulatory requirements and increased operating costs, and have impacted, and will continue to impact, product offerings and business models.

Regulatory requirements:

Recent regulatory changes, proposed or future developments and heightened levels of public and regulatory scrutiny in the EU have resulted in increased capital, funding and liquidity requirements, changes in the competitive landscape, changes in other regulatory requirements and increased operating costs, and have impacted, and will continue to impact, product offering and business models. For example, NWM N.V. Group is required to ensure operational continuity in resolution; the steps required to ensure such compliance entail significant costs, and also impose significant operational, legal and execution risk. Material consequences could arise should NWM N.V. Group be found to be non-compliant with these regulatory requirements.

The ECB may replace the DNB as the regulator of NWM N.V. due to the growing size of NWM N.V. If the ECB does become the regulator of NWM N.V. (and therefore NWM N.V. becomes a 'significant institution' as defined by the ECB), or if NWM N.V. becomes a 'large institution' (as defined under EU law instruments), then it would be subject to additional or different regulatory and/ or prudential requirements and disclosure requirements. Should NWM N.V. not meet certain supervisory criteria, remedial action or changes to the business may be required. Any such actions or changes may harm the reputation of NWM Group N.V. and may also require additional resources and funds which may need to be diverted from other parts of the business which may, in turn, adversely affect NWM N.V. Group.

Such changes may also result in an increased number of regulatory investigations and proceedings and have increased the risks relating to NWM N.V. Group's ability to comply with the applicable body of rules and regulations in the manner and within the timeframes required.

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

- general changes in government, central bank, regulatory or competition policy, or changes in regulatory regimes that may influence investor decisions in the jurisdictions in which NWM N.V. Group operates;
- rules relating to foreign ownership, expropriation, nationalisation and confiscation of assets;
- new or increased regulations relating to customer data protection as well as IT controls and resilience, such as the proposed UK Data Protection and Digital Information Bill and in India, the Digital Personal Data Protection Bill;
- the introduction of, and changes to, taxes, levies or fees applicable to NWM N.V. Group's operations, which may require increased payments of tax, such as the Dutch Withholding Tax Act 2021 (*Wet bronbelasting 2021*), the imposition of a financial transaction tax, introduction of global minimum tax rules, changes in the scope and administration of the Dutch Bank Levy (*bankenbelasting*), changes in tax rates, increases in the bank corporation tax surcharge in the UK, restrictions on the tax deductibility of interest payments or further restrictions imposed on the treatment of carry-forward tax losses that may reduce the value of deferred tax for certain years; and
- the potential introduction by the Bank of England of a Central Bank Digital Currency which could result in deposit outflows, higher funding costs, and/or other implications for banks including NatWest Group (including impact on NWM N.V. Group).

These and other recent regulatory changes, proposed or future developments and heightened levels of public and regulatory scrutiny in the UK, the Netherlands, the EU and the US have resulted in increased capital, funding and liquidity requirements, changes in the competitive landscape, changes in other regulatory requirements and increased operating costs, and have impacted, and will continue to impact, product offerings and business models. Any of these developments (including any failure to comply with new rules and regulations) could also have a significant impact on NWM N.V. Group's authorisations and licences, the products and services that NWM N.V. Group may offer, its reputation and the value of its assets, NWM N.V. Group's operations or legal entity structure, and the manner in which NWM N.V. Group conducts its business. Material consequences could arise should NWM N.V. Group be found to be non-compliant with these regulatory requirements. Regulatory developments may also result in an increased number of regulatory investigations and proceedings and have increased the risks relating to NWM N.V. Group's ability to comply with the applicable body of rules and regulations in the manner and within the timeframes required.

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

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

NWM N.V. Group's operations are diverse and complex and it operates in legal and regulatory environments that expose it to potentially significant civil actions (including those following on from regulatory sanction), as well as criminal, regulatory and governmental proceedings. NWM N.V. Group and NWM Plc have resolved a number of legal and regulatory actions over the past several years but continues to be, and may in the future be, involved in such actions in the US, the UK, Europe and other jurisdictions.

NWM N.V. Group and/or NWM Plc are currently, have recently been and will likely be involved in a number of significant legal and regulatory actions, including investigations, proceedings and ongoing reviews (both formal and informal) by governmental law enforcement and other agencies and litigation proceedings, including in relation to the offering of securities, conduct in the foreign exchange market, the setting of benchmark rates such as LIBOR and related derivatives trading, the issuance, underwriting, and sales and trading of fixed-income securities (including government securities), product mis-selling, customer mistreatment, anti-money laundering, antitrust, VAT recovery and various other issues. There is also an increasing risk of new class action claims being brought against NWM Group in the Competition Appeal Tribunal for breaches of competition law. Legal and regulatory actions are subject to many uncertainties, and their outcomes, including the timing, amount of fines, damages or settlements or the form of any settlements, which may be material and in excess of any related provisions, are often difficult to predict, particularly in the early stages of a case or investigation. NWM N.V. Group's expectation for resolution may change and substantial additional provisions and costs may be recognised in respect of any matter.

The resolution of significant investigations include NWM Plc's December 2021 spoofing-related guilty plea in the United States, which involves a three-year period of probation, an independent corporate monitor, and commitments to compliance programme reviews and improvements and reporting obligations. For additional information relating to this and other legal and regulatory proceedings and matters to which NWM Group is currently exposed, see '*Litigation and regulatory matters*' at Note 23 to the consolidated accounts.

The 2021 guilty plea, other recently resolved matters or adverse outcomes or resolution of current or future legal or regulatory actions, could increase the risk of greater regulatory and third-party scrutiny and could have material collateral consequences for NWM Group's (including NWM N.V. Group's) business and result in restrictions or limitations on NWM Group's (including NWM N.V. Group's) operations.

These may include the effective or actual disqualification from carrying on certain regulated activities and consequences resulting from the need to reapply for various important licences or obtain waivers to conduct certain existing activities of NWM N.V. Group, particularly but not solely in the US, which may take a significant period of time and the results and implications of which are uncertain. Disqualification from carrying on any activities, whether automatically as a result of the resolution of a particular matter or as a result of the failure to obtain such licences or waivers could adversely affect NWM N.V. Group's business, in particular in the US. This in turn and/or any fines, settlement payments or penalties may adversely affect NWM N.V. Group's reputation, future results, financial condition and/or prospects. Similar consequences could result from legal or regulatory actions relating to other parts of NatWest Group.

Failure to comply with undertakings made by NWM N.V. Group to its regulators, or the conditions of probation resulting from the spoofing-related guilty plea may result in additional measures or penalties being taken against NWM N.V. Group. In addition, any failure to administer conduct redress processes adequately, or to handle individual complaints fairly or appropriately, could result in further claims as well as the imposition of additional measures or limitations on NWM N.V. Group's operations, additional supervision by NWM N.V. Group's regulators, and loss of investor confidence.

NWM N.V. Group may not effectively manage the transition of LIBOR and other IBOR rates to replacement risk-free rates.
UK, Dutch and other European and international regulators are driving the transition from the use of interbank offer rates ('IBORs'), to replacement rates generally referred to as 'risk-free rates' ('RFRs').

As of 31 December 2021, LIBOR, as currently determined, has ceased for all tenors of GBP, JPY, CHF, EUR, and for the 1 week and 2-month tenors for USD. The remaining USD LIBOR tenors, as currently determined, are due to cease after 30 June 2023. The FCA has used its powers under the UK Benchmarks Regulation ('UK BMR') to require, for a limited period of time after 31 December 2021, the ongoing publication of the 1-, 3-, and 6-month GBP and JPY LIBOR tenors using a changed methodology (i.e., 'Art23A LIBOR' on a synthetic basis). The UK has passed the Critical Benchmarks (References and Administrators' Liability) Act 2021 ('Critical Benchmarks Act') which establishes a framework that allows the ongoing use of Art23A LIBOR under certain circumstances where contracts have not pro-actively transitioned onto the replacement rates. These concessions provided under UK BMR and the Critical Benchmarks Act are temporary. The FCA confirmed that Art23A will no longer be available from: (i) the end of 2022 for JPY, (ii) March 2023 for 1- and 6-month GBP LIBOR and (iii) March 2024 for 3-month GBP LIBOR. The transition away from these temporary concessions may expose NatWest Group, its customers and the financial services industry more widely to various risks, including: (i) the FCA further restricting use of Art23A LIBOR resulting in proactive transition of contracts; and (ii) mis-matches between positions in cleared derivatives and the exposures they are hedging where those exposures are permitted to make use of Art23A LIBOR. Although the formal cessation date for the remaining USD LIBOR tenors (as currently determined) is not until the end of June 2023, US and UK regulators have clarified that this is only to support the rundown of existing USD LIBOR exposures. No new contracts should reference these USD LIBOR tenors after 31 December 2021, other than in a very limited range of circumstances. NatWest Group will continue to have ongoing exposure to the remaining USD LIBOR tenors until cessation in June 2023.

Natwest Group has held significant exposures to various IBORs and has actively sought to transition away from these during 2021 and 2022, in accordance with regulatory expectations and milestones. Transition measures have included the pro-active development of new products using the replacement rates, restructuring existing LIBOR exposures to reference these replacement rates and embedding RFR transition language into relevant contracts. Central Counterparty Clearing houses (CCPs) conducted mass conversion exercises in December 2021 covering GBP, JPY, CHF and EUR LIBOR, transitioning derivatives to the relevant RFR, conversion exercises for USD are scheduled for May 2023, NWG entities, along with many of their major counterparties, have adhered to the ISDA IBOR fall-backs protocol which establishes a contractual process to transition from IBORs to RFRs for bilateral derivative products.

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

Examples of these risks include: (i) legal (including litigation) risks relating to documentation for new and the majority of existing transactions (including, changes, lack of changes, unclear contractual provisions, and disputes in respect of these); (ii) financial risks from any changes in valuation of financial instruments linked to relevant IBORs, including cost of funds and relevant risk management related financial models; (iii) changes to benchmark rates could impact pricing, interest rate or settlement

mechanisms for certain instruments; (iv) operational risks linked to the adaptation of IT systems, trade reporting infrastructure and operational processes, as well as ensuring compliance with restrictions on new USD LIBOR usage after December 2021; (v) conduct risks arising from communication of the potential impact on customers, engagement with customers during and after the transition period, or non-acceptance by customers of replacement rates; and (vi) different legislative provisions in different jurisdictions, for example, unlike certain US states and the EU, the UK has not provided a clear and robust safe harbour to protect against litigation and potential liability arising out of the switch to 'synthetic LIBOR'.

Notwithstanding all efforts to date, until the transition away from LIBOR onto replacement rates has been fully completed, and there is greater experience of how RFRs are adopted across different products and customer groups, there is some uncertainty as to the impact of the transition, or the potential costs of implementing any relevant remedial action, including in the event that the transition is not completed in a timely manner, or at all. The implementation of any replacement RFRs may be impossible or impracticable under the existing terms of certain financial instruments and may have an adverse effect on their value, or return and therefore on NWM N.V. Group's future results.

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