NatWest Group plc
Q1 2023 Pillar 3

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Forward-looking statements

This document may include forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995, such as statements that include, without limitation, the words 'expect', 'estimate', 'project', 'anticipate', 'commit', 'believe', 'should', 'intend', 'will', 'plan', 'could', 'probability', 'risk', 'Value-at-Risk (VaR)', 'target', 'goal', 'objective', 'may', 'endeavour', 'outlook', 'optimistic', 'prospects' and similar expressions or variations on these expressions. These statements concern or may affect future matters, such as NatWest Group's future economic results, business plans and strategies. In particular, this document may include forward-looking statements relating to NatWest Group plc in respect of, but not limited to: its economic and political risks, its regulatory capital position and related requirements, its financial position, profitability and financial performance (including financial, capital, cost savings and operational targets), the implementation of its purpose-led strategy, its environmental, social and governance and climate related targets, its access to adequate sources of liquidity and funding, increasing competition from new incumbents and disruptive technologies, its exposure to third party risks, its ongoing compliance with the UK ring-fencing regime and ensuring operational continuity in resolution, its impairment losses and credit exposures under certain specified scenarios, substantial regulation and oversight, ongoing legal, regulatory and governmental actions and investigations, the transition of LIBOR and IBOR rates to replacement risk free rates and NatWest Group's exposure to operational risk, conduct risk, cyber, data and IT risk, financial crime risk, key person risk and credit rating risk. Forward-looking statements are subject to a number of risks and uncertainties that might cause actual results and performance to differ materially from any expected future results or performance expressed or implied by the forward-looking statements. Factors that could cause or contribute to differences in current expectations include, but are not limited to, future growth initiatives (including acquisitions, joint ventures and strategic partnerships), the outcome of legal, regulatory and governmental actions and investigations, the level and extent of future impairments and write-downs, legislative, political, fiscal and regulatory developments, accounting standards, competitive conditions, technological developments, interest and exchange rate fluctuations, general economic and political conditions and the impact of climate-related risks and the transitioning to a net zero economy. These and other factors, risks and uncertainties that may impact any forward-looking statement or NatWest Group plc's actual results are discussed in NatWest Group plc's UK 2022 Annual Report and Accounts (ARA), NatWest Group plc's Interim Management Statement for Q1 2023 and its other public filings. The forward-looking statements contained in this document speak only as of the date of this document and NatWest Group plc does not assume or undertake any obligation or responsibility to update any of the forward-looking statements contained in this document, whether as a result of new information, future events or otherwise, except to the extent legally required.

Presentation of information

This document presents the interim consolidated Pillar 3 disclosures for NatWest Group as at 31 March 2023, which complement those in the NatWest Group Q1 2023 Interim Management Statement (IMS).

As of the date of this report, NatWest Group plc is regulated under the UK Capital Requirements Regulation (CRR) and the associated onshored binding technical standards that were created by the European Union (Withdrawal) Act 2018.

The Pillar 3 disclosures made by NatWest Group plc and its consolidated subsidiaries (together NatWest Group) are designed to comply with the Disclosure (CRR) Part of the PRA Rulebook. Where applicable, additional disclosures are made in accordance with supervisory expectations mainly relating to the IFRS 9 transitional relief in respect to ECL provisions.

Under the PRA disclosure framework, large subsidiaries of NatWest Group plc are also required to complete a reduced set of disclosures depending on their listed/non-listed status. NatWest Group plc primarily determines its large subsidiaries, in accordance with the UK CRR requirements, as those designated as an O-SII firm by the PRA or with a value of total assets equal to or greater than €30 billion. NatWest Group plc's large subsidiaries as at 31 March 2023 were:

- National Westminster Bank Plc (NWB Plc)
- The Royal Bank of Scotland plc (RBS plc)
- NatWest Markets Plc (NWM Plc)
- The Royal Bank of Scotland International Limited (RBSI)
- Coutts & Company (Coutts & Co)

In addition, under the EU CRR rules, Ulster Bank Ireland DAC (UBIDAC) is also considered a large subsidiary of NatWest Group plc as the entity continues to be designated as an O-SII firm by its supervisors.

The Pillar 3 disclosures for NatWest Group plc's large subsidiaries and the consolidated disclosures for NatWest Holdings Group (RFB sub-group) are provided in separate documents. Disclosures for large subsidiaries that are non-UK entities are calculated in accordance with regulatory requirements applicable in the countries in which they are incorporated. These are published in the same location and are available on the NatWest Group website, located at: investors.natwestgroup.com/reports-archive/2023

Row and column references are based on those prescribed in the PRA templates. The IFRS 9-FL disclosures have been prepared using the uniform format published by the EBA.

In this report, in line with the regulatory framework, the term credit risk excludes counterparty credit risk, unless specifically indicated otherwise.

The Pillar 3 disclosures are presented in pounds sterling ('£') and have not been subject to external audit.

For definitions of terms, refer to the Glossary available on natwestgroup.com.

Capital, liquidity and funding
NatWest Group - Key points

CET1 ratio

The CET1 ratio increased by 20 basis points to 14.4%. The increase (in CET1 ratio) was due to a £0.7 billion increase in CET1 capital, partially offset by a £2.0 billion increase in RWAs.

The CET1 increase was mainly driven by an attributable profit for ordinary shareholders of £1.3 billion offset by:

- a foreseeable ordinary dividend accrual of £0.5 billion;
- a £0.1 billion decrease in the IFRS 9 transitional adjustment, primarily due to the annual update in the dynamic stage transition percentage and the end of transition on the static and historic stages; and
- other movements on reserves and regulatory adjustments.

RWAs

Total RWAs increased by £2.0 billion to £178.1 billion mainly reflecting:

- an increase in credit risk RWAs of £1.7 billion, primarily due to drawdowns and new facilities within Commercial & Institutional. This was partially offset by improved risk metrics within Commercial & Institutional.
- an increase in operational risk RWAs of £1.1 billion following the annual recalculation.
- a reduction in market risk RWAs of £0.8 billion primarily due to lower volatility than in Q4 2022, combined with the prospective adjustment of the VaR model that makes it more sensitive to recent market conditions and is capitalised as RNIV RWAs.

UK leverage

The leverage ratio remained static at 5.4%. There was a £0.7 billion increase in Tier 1 capital offset by an £8.9 billion increase in leverage exposure. The key driver in the leverage exposure was an increase in other financial assets.

LCR average

The average liquidity coverage ratio (LCR) for the three months to 31 March 2023 decreased 6% over the period from 157% to 151%. The main drivers include a reduction in customer deposits (wholesale and retail) and increased customer lending, partly offset by increased issuance.

NSFR average

The average net stable funding ratio (NSFR) was 147% compared to 150% at YE 2022. The decrease was due to lower deposits combined with higher lending.

UK KM1: Key metrics

The table below provides a summary of the main prudential regulation ratios and measures. Capital ratios and measures are presented on a transitional basis, and therefore include permissible adjustments for the extended CRR2 grandfathering provisions and remaining IFRS 9 relief. NatWest Group has elected to take advantage of the IFRS 9 transitional capital rules in respect of ECL provisions. The revised transitional amendments will maintain a CET1 add-back of relevant ECL provisions until 31 December 2024.

		NatWest Group				
		31 March 2023	31 December 2022	30 September 2022	30 June 2022	31 March 2022
Available own funds (amounts)		**£m**	£m	£m	£m	£m
1	Common equity tier 1 (CET1) capital	**25,650**	24,992	25,556	25,693	26,889
2	Tier 1 capital	**29,525**	28,867	29,431	29,568	30,764
3	Total capital	**35,002**	33,920	34,230	34,751	36,044
Risk-weighted exposure amounts						
4	Total risk-weighted exposure amount	**178,135**	176,101	178,494	179,795	176,818
Capital ratios (as a percentage of risk-weighted exposure amount)						
5	Common equity tier 1 ratio (%)	**14.4**	14.2	14.3	14.3	15.2
6	Tier 1 ratio (%)	**16.6**	16.4	16.5	16.4	17.4
7	Total capital ratio (%)	**19.6**	19.3	19.2	19.3	20.4
Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)						
UK 7a	Additional CET1 SREP requirements (%)	**1.7**	1.7	1.8	1.7	1.8
UK 7b	Additional AT1 SREP requirements (%)	**0.6**	0.6	0.5	0.6	0.6
UK 7c	Additional Tier 2 SREP requirements (%)	**0.7**	0.7	0.8	0.8	0.8
UK 7d	Total SREP own funds requirements (%)	**11.0**	11.0	11.1	11.1	11.2
Combined buffer requirement (as a percentage of risk-weighted exposure amount)						
8	Capital conservation buffer (%)	**2.5**	2.5	2.5	2.5	2.5
9	Institution specific countercyclical capital buffer (%) (1)	**0.8**	0.8	—	—	—
10	Global Systemically Important Institution buffer (%)					
UK 10a	Other Systemically Important Institution buffer (%)					
11	Combined buffer requirement (%)	**3.3**	3.3	2.5	2.5	2.5
UK 11a	Overall capital requirements (%)	**14.3**	14.3	13.6	13.6	13.7
12	CET1 available after meeting the total SREP own funds requirements (%) (2)	**8.2**	8.0	8.0	8.1	8.9
Leverage ratio						
13	Total exposure measure excluding claims on central banks	**543,513**	534,613	564,866	570,752	564,418
14	Leverage ratio excluding claims on central banks (%)	**5.4**	5.4	5.2	5.2	5.5
Additional leverage ratio disclosure requirements						
UK 14a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	**5.4**	5.3	5.2	5.1	5.4
UK 14b	Leverage ratio including claims on central banks (%)	**4.5**	4.3	4.1	4.0	4.2
UK 14c	Average leverage ratio excluding claims on central banks (%)	**5.4**	5.6	5.3	5.3	5.6
UK 14d	Average leverage ratio including claims on central banks (%)	**4.4**	4.3	4.1	4.1	4.3
UK 14e	Countercyclical leverage ratio buffer (%)	**0.3**	0.3	—	—	—
Liquidity coverage ratio						
15	Total high-quality liquid assets (HQLA) (weighted value-average)	**182,133**	193,872	204,269	204,862	200,588
UK 16a	Cash outflows - Total weighted value	**135,309**	138,594	139,646	137,363	133,761
UK 16b	Cash inflows - Total weighted value	**14,592**	15,421	14,989	14,278	13,864
16	Total net cash outflows (adjusted value)	**120,717**	123,173	124,657	123,085	119,897
17	Liquidity coverage ratio (%) (3)	**151**	157	164	166	167
Net stable funding ratio (4)						
18	Total available stable funding	**423,884**	429,703			
19	Total required stable funding	**288,904**	287,375			
20	NSFR ratio (%)	**147**	150			

(1) The institution-specific countercyclical capital buffer requirement is based on the weighted average of the buffer rates in effect for the countries in which institutions have exposures.
(2) Represents the CET1 ratio less CET1 currently used to meet SREP requirements (Pillar 1 & 2A).
(3) The Liquidity coverage ratio (LCR) is calculated as the simple average of the preceding 12 monthly periods ending on the quarterly reporting date as specified in the table.
(4) The Net stable funding ratio (NSFR) is calculated as the average of the preceding four quarters reflecting PRA's guidance which came into effect last year. The prior period ratios have not been restated.
(5) The following rows are not presented in the table above because they are not applicable: UK8a and UK9a.

IFRS 9-FL: Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECL

The table below shows key prudential regulation ratios and measures with and without the application of IFRS 9 transitional relief. NatWest Group has elected to take advantage of the transitional capital rules in respect of ECL provisions. Following the adoption of IFRS 9 from 1 January 2018, the CRR introduced transitional rules to phase in the full CET1 effect over a five-year period. The revised transitional amendments will maintain a CET1 add-back of relevant ECL provisions until 31 December 2024. Capital measures in this table are presented in line with table UK KM1.

		NatWest Group				
		31 March 2023	31 December 2022	30 September 2022	30 June 2022	31 March 2022
	Available capital (amounts) - transitional	**£m**	£m	£m	£m	£m
1	Common equity tier 1	**25,650**	24,992	25,556	25,693	26,889
2	Common equity tier 1 capital as if IFRS 9 transitional arrangements had not been applied	**25,430**	24,631	25,198	25,409	26,486
3	Tier 1 capital	**29,525**	28,867	29,431	29,568	30,764
4	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	**29,305**	28,506	29,073	29,284	30,361
5	Total capital	**35,002**	33,920	34,230	34,751	36,044
6	Total capital as if IFRS 9 transitional arrangements had not been applied	**35,031**	33,956	34,253	34,813	36,000
	Risk-weighted assets (amounts)					
7	Total risk-weighted assets	**178,135**	176,101	178,494	179,795	176,818
8	Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied	**178,098**	176,030	178,414	179,763	176,790
	Capital ratios	**%**	%	%	%	%
9	Common equity tier 1 ratio	**14.4**	14.2	14.3	14.3	15.2
10	Common equity tier 1 ratio as if IFRS 9 transitional arrangements had not been applied	**14.3**	14.0	14.1	14.1	15.0
11	Tier 1 ratio	**16.6**	16.4	16.5	16.4	17.4
12	Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied	**16.5**	16.2	16.3	16.3	17.2
13	Total capital ratio	**19.6**	19.3	19.2	19.3	20.4
14	Total capital ratio as if IFRS 9 transitional arrangements had not been applied	**19.7**	19.3	19.2	19.4	20.4
	Leverage ratio					
15	Leverage ratio exposure measure (£m)	**543,513**	534,613	564,866	570,752	564,418
16	Leverage ratio (%)	**5.4**	5.4	5.2	5.2	5.5
17	Leverage ratio (%) as if IFRS 9 transitional arrangements had not been applied	**5.4**	5.3	5.2	5.1	5.4

UK LR2 - LRCom: Leverage ratio common disclosure

The table below shows an abridged version of the disclosure template UK LR2 - LRCom for NatWest Group. The leverage metrics are calculated in accordance with the Leverage Ratio (CRR) part of the PRA Rulebook.

		NatWest Group	
		31 March 2023	31 December 2022
Capital and total exposure measure		**£m**	£m
UK-24b	Total exposure measure excluding claims on central banks	**543,513**	534,613
Leverage ratio			
25	Leverage ratio excluding claims on central banks (%)	**5.4**	5.4
UK-25a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	**5.4**	5.3
UK-25c	Leverage ratio including claims on central banks (%)	**4.5**	4.3
Additional leverage ratio disclosure requirements - leverage ratio buffers			
27	Leverage ratio buffer (%)	**0.3**	0.3
UK-27b	Of which: countercyclical leverage ratio buffer (%)	**0.3**	0.3
Additional leverage ratio disclosure requirements - disclosure of mean values			
UK-31	Average total exposure measure excluding claims on central banks	**540,914**	531,429
UK-32	Average total exposure measure including claims on central banks	**666,102**	684,305
UK-33	Average leverage ratio excluding claims on central banks (%)	**5.4**	5.6
UK-34	Average leverage ratio including claims on central banks (%)	**4.4**	4.3

(1) NatWest Group is a LREQ firm and is therefore subject to the additional quarterly disclosures for averaging and the countercyclical leverage ratio buffer.

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The NatWest Group average leverage ratio decreased from 5.6% to 5.4% in the quarter. There was an increase in average leverage exposure driven by an increase in balance sheet other assets and a decrease in 3-month average Tier 1 capital.

UK LIQ1: Quantitative information of LCR

The table below shows the breakdown of high-quality liquid assets, cash inflows and cash outflows, on both an unweighted and weighted basis, that are used to derive the liquidity coverage ratio for NatWest Group. The weightings applied reflect the stress factors applicable under the UK LCR rules. The values presented are the simple average of the preceding monthly periods ending on the quarterly reporting date as specified in the table. LCR outflows do not capture all liquidity risks (e.g. intra-day liquidity). NatWest Group assesses these risks as part of its Individual Liquidity Adequacy Assessment Process and maintains appropriate levels of liquidity.

		NatWest Group							
		Total unweighted value (average)				Total weighted value (average)			
		31 March 2023	31 December 2022	30 September 2022	30 June 2022	**31 March 2023**	31 December 2022	30 September 2022	30 June 2022
	Number of data points used in the calculation of averages	**12**	12	12	12	**12**	12	12	12
		£m	£m	£m	£m	**£m**	£m	£m	£m
	High-quality liquid assets								
1	Total high-quality liquid assets (HQLA)					**182,133**	193,872	204,269	204,862
	Cash - outflows								
2	Retail deposits and deposits from small business customers, of which:	**266,538**	269,923	269,534	266,758	**20,960**	21,352	21,392	21,163
3	*Stable deposits*	***157,333***	*159,675*	*161,205*	*161,824*	***7,867***	*7,984*	*8,060*	*8,091*
4	*Less stable deposits*	***100,512***	*102,783*	*103,144*	*101,727*	***12,699***	*12,997*	*13,022*	*12,818*
5	Unsecured wholesale funding	**178,384**	185,732	189,696	190,112	**82,298**	86,024	87,807	87,449
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	***70,454***	*72,101*	*73,203*	*73,988*	***17,294***	*17,706*	*17,981*	*18,178*
7	*Non-operational deposits (all counterparties)*	***105,799***	*111,529*	*114,495*	*114,097*	***62,873***	*66,216*	*67,828*	*67,244*
8	*Unsecured debt*	***2,131***	*2,102*	*1,998*	*2,027*	***2,131***	*2,102*	*1,998*	*2,027*
9	Secured wholesale funding					**943**	999	926	849
10	Additional requirements	**80,829**	79,414	78,715	77,597	**22,613**	21,948	21,429	20,537
11	*Outflows related to derivative exposures and other collateral requirements*	***7,316***	*7,109*	*6,892*	*6,723*	***6,888***	*6,611*	*6,293*	*6,084*
12	*Outflows related to loss of funding on debt products*	***63***	—	—	—	***63***	—	—	—
13	*Credit and liquidity facilities*	***73,450***	*72,305*	*71,823*	*70,874*	***15,662***	*15,337*	*15,136*	*14,453*
14	Other contractual funding obligations	**15,860**	19,348	23,072	25,161	**2,812**	2,629	2,962	2,701
15	Other contingent funding obligations	**51,850**	51,177	49,286	47,945	**5,683**	5,642	5,130	4,664
16	Total cash outflows					**135,309**	138,594	139,646	137,363
	Cash - inflows								
17	Secured lending (e.g. reverse repos)	**46,380**	49,872	53,142	56,651	**624**	598	449	364
18	Inflows from fully performing exposures	**9,666**	10,814	10,655	10,409	**8,126**	9,222	9,044	8,781
19	Other cash inflows	**13,809**	13,728	13,646	13,309	**5,842**	5,601	5,496	5,133
UK-19a	(Difference between total weighted inflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)	**—**	—	—	—	**—**	—	—	—
UK-19b	(Excess inflows from a related specialised credit institution)	**—**	—	—	—	**—**	—	—	—
20	Total cash inflows	**69,855**	74,414	77,443	80,369	**14,592**	15,421	14,989	14,278
UK-20a	Fully exempt inflows	**—**	—	—	—	**—**	—	—	—
UK-20b	Inflows subject to 90% cap	**—**	—	—	—	**—**	—	—	—
UK-20c	Inflows subject to 75% cap	**67,006**	71,153	73,550	75,812	**14,592**	15,421	14,989	14,278
	Total adjusted value								
UK-21	Liquidity buffer					**182,133**	193,872	204,269	204,862
22	Total net cash outflows					**120,717**	123,173	124,657	123,085
23	Liquidity coverage ratio (%)					**151**	157	164	166

UK LIQB: Qualitative information on LCR

LCR inputs and results over time

The LCR aims to ensure that banks and banking groups hold a sufficient reserve of high-quality liquid assets (HQLA) to survive a period of liquidity stress lasting 30 calendar days.

All figures included in the table represent a 12-month rolling average.

The average LCR ratio for the 12 months to 31 March 2023 has decreased 6% over the previous quarter, from 157% to 151%. The main drivers include a reduction in customer deposits (wholesale and retail) and increased customer lending, partly offset by increased issuance.

Concentration of funding sources

NatWest Group plc maintains a diversified set of funding sources, of which retail, SME and corporate deposits are the biggest contributors. Other sources include wholesale unsecured funding, capital (including equity and MREL-eligible bonds), central banks (TFSME), repos, covered bonds and derivative cash collateral. Wholesale unsecured funding includes a range of products including deposits, commercial paper, certificates of deposit and medium-term notes, and is accepted from various corporate counterparties and financial institutions.

Liquidity buffer composition

HQLA is primarily held in Level 1 cash and central bank reserves (84%) and Level 1 high quality securities (15%), Level 2 securities account for (1%).

Derivative exposures and potential collateral calls

NatWest Group plc actively manages its derivative exposures and potential calls, including both due collateral and excess collateral, with derivative outflows under stress captured under the Historical Look-Back Approach, which considers the impact of an adverse market scenario on derivatives. Potential collateral calls under a 3-notch downgrade of the credit ratings of the entities within NatWest Group plc are also captured.

Currency mismatch in the LCR

The LCR is calculated for the euro, the US dollar and sterling, which have been identified as significant currencies (having liabilities greater than, or equal to, 5% of total group liabilities excluding regulatory capital and off-balance sheet liabilities) in accordance with the Liquidity Coverage Ratio (CRR) part of the PRA Rulebook. NatWest Group plc manages currency mismatch for significant currencies according to its internal liquidity adequacy assessment framework.

UK OV1: Overview of risk-weighted exposure amounts

The table below shows RWAs and total own funds requirements by risk type. Total own funds requirements are calculated as 8% of RWAs.

		NatWest Group		
		a	b	c
		Risk-weighted exposure amounts (RWAs)		Total own funds requirements
		31 March 2023 £m	31 December 2022 £m	31 March 2023 £m
1	Credit risk (excluding counterparty credit risk)	141,867	140,299	11,349
2	*Of which: standardised approach*	*22,805*	*23,048*	*1,824*
3	*Of which: the foundation IRB (FIRB) approach*	—	—	—
4	*Of which: slotting approach*	*12,652*	*12,330*	*1,012*
UK 4a	*Of which: equities under the simple risk-weighted approach*	*1,280*	*1,306*	*102*
5	*Of which: the advanced IRB (AIRB) approach (1)*	*105,130*	*103,615*	*8,411*
6	Counterparty credit risk	6,557	6,627	525
7	*Of which: standardised approach*	*1,062*	*1,069*	*86*
8	*Of which: internal model method (IMM)*	*3,368*	*3,479*	*269*
UK 8a	*Of which: exposures to a CCP*	*100*	*132*	*8*
UK 8b	*Of which: credit valuation adjustment (CVA)*	*1,280*	*1,300*	*102*
9	*Of which: other counterparty credit risk*	*747*	*647*	*60*
15	Settlement risk	—	—	—
16	Securitisation exposures in the non-trading book (after the cap)	1,966	1,760	157
17	*Of which: SEC-IRBA approach*	—	—	—
18	*Of which: SEC-ERBA (including IAA)*	*180*	*51*	*14*
19	*Of which: SEC-SA approach*	*1,737*	*1,664*	*139*
UK 19a	*Of which: 1,250%/deduction*	*49*	*45*	*4*
20	*Position, foreign exchange and commodities risk (market risk)*	7,547	8,300	604
21	*Of which: standardised approach*	*1,347*	*1,119*	*108*
22	*Of which: IMA*	*6,200*	*7,181*	*496*
UK 22a	Large exposures	—	—	—
23	Operational risk	20,198	19,115	1,616
UK 23a	*Of which: basic indicator approach*	—	—	—
UK 23b	*Of which: standardised approach*	*20,198*	*19,115*	*1,616*
UK 23c	*Of which: advanced measurement approach*	—	—	—
24	Amounts below the thresholds for deduction (subject to 250% risk-weight) (2)	2,893	2,904	231
29	**Total**	178,135	176,101	14,251

(1) Of which £410 million RWAs (31 December 2022 – £402 million) relate to equity IRB under the probability of default/loss given default approach.
(2) The amount is shown for information only, as these exposures are already included in rows 1 and 2.

RWA movement tables

UK CR8: RWA flow statement of credit risk exposures under the IRB approach

The table below shows movements in RWAs for credit risk exposures under the internal ratings based (IRB) approach. It excludes counterparty credit risk, securitisations and non-credit obligation assets.

		NatWest Group
		a
		RWAs
		£m
1	**At 31 December 2022**	**113,323**
2	Asset size	2,963
3	Asset quality	(316)
4	Model updates	(345)
7	Foreign exchange movements	(342)
9	**At 31 March 2023**	**115,283**

(1) The following rows are not presented in the table because they had zero values for the period: (5) methodology and policy, (6) acquisitions and disposals, and (8) other.

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- The uplift in asset size primarily related to increases in Commercial & Institutional as a result of drawdowns and new facilities. Further uplifts were mainly due to increased exposures in Retail Banking. These increases were partially offset by a fall in items held in the course of treasury related management activities.
- The decrease in foreign exchange movements was mainly a result of sterling strengthening against the US dollar and euro during the period.
- The reduction in RWAs for asset quality primarily related to improved risk metrics within Commercial & Institutional.
- The decrease in model updates was mainly due to adjustments as a result of new regulations applicable to IRB models from 1 January 2022. There were further decreases as a result of loss given default model changes.

UK CCR7: RWA flow statement of counterparty credit risk exposures under the IMM

The table below shows movements in RWAs for counterparty credit risk exposures under the internal model method (IMM). It excludes the CVA capital charge, exposures to central counterparties and securitisations.

		NatWest Group
		a
		RWAs
		£m
1	**At 31 December 2022**	**3,479**
2	Asset size	(65)
3	Credit quality of counterparties	17
7	Foreign exchange movements	(63)
9	**At 31 March 2023**	**3,368**

(1) The following rows are not presented in the table because they had zero values for the period: (4) model updates, (5) methodology and policy, (6) acquisitions and disposals, and (8) other.

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- The decrease in IMM RWAs mainly reflects a reduction in asset size and the strengthening of sterling against the euro and the US dollar over the period.

UK MR2-B: RWA flow statement of market risk exposures under the IMA

The table below shows movements in RWAs and own funds requirements for market risk exposures under the internal model approach (IMA).

		NatWest Group					
		a	b	c	e	f	g
		Value-at-risk (VaR) £m	Stressed value-at-risk (SVaR) £m	Incremental risk charge £m	Other (Risks Not in VaR (RNIV)) £m	Total RWAs £m	Total own funds requirements £m
1	**At 31 December 2022**	**1,883**	**2,664**	**681**	**1,953**	**7,181**	**575**
1a	*Regulatory adjustment (1)*	*(1,500)*	*(2,155)*	*(2)*	*—*	*(3,657)*	*(293)*
1b	*RWAs at 31 December 2022 (end of day)*	*383*	*509*	*679*	*1,953*	*3,524*	*282*
2	Movement in risk levels	(154)	29	165	(608)	(568)	(46)
3	Model updates/changes	—	5	—	18	23	2
8a	*RWAs at 31 March 2023 (end of day)*	*229*	*543*	*844*	*1,363*	*2,979*	*238*
8b	*Regulatory adjustment (1)*	*1,370*	*1,850*	*1*	*—*	*3,221*	*258*
8	**At 31 March 2023**	**1,599**	**2,393**	**845**	**1,363**	**6,200**	**496**

(1) Regulatory adjustments in rows 1a and 8b represent the difference in RWA terms between the risk spot measure at the end of the reporting period and the 60-day average of that measure, multiplied by the multiplication factor.

(2) The following rows and/or columns are not presented in the table because they had zero values for the period or are not used by NatWest Group: column (d) comprehensive risk measure, row (4) methodology and policy, row (5) acquisitions and disposals, and row (7) other. In addition, row (6) foreign exchange movements is not presented. This is because changes in market risk arising from foreign currency retranslation are included within row (2) movement in risk levels, as they are managed together with portfolio changes.

Q1 2023

- Overall, market risk RWAs under the IMA decreased in Q1 2023.
- The decreases in VaR and SVaR-based RWAs were mainly due to a decrease in interest rate risk. For VaR, a decrease in foreign exchange risk also contributed.
- A reduction in the capital multiplier for NWM Plc during the quarter, due to a fall in the VaR back-testing exception count, also had a downward RWA impact.
- The higher incremental risk charge mostly relates to increases in government bond positions.
- A prospective update to make the VaR model more sensitive to recent market conditions is currently under review by the PRA. This impact is currently being capitalised through an RNIV. This RNIV decreased during the quarter reflecting the reduced market volatility, hence the decrease in RNIV-based RWAs.