



NatWest Markets Securities Inc.

Statement of Financial Condition
as of June 30, 2024

Unaudited

Statement of Financial Condition

as of June 30, 2024

	\$m
Cash and cash equivalents	28
Cash and securities segregated under federal and other regulations	17
Receivables from brokers, dealers, and other institutions	62
Receivables from customers	1
Securities purchased under agreements to resell and other collateralized financing arrangements, at fair value	15,383
Financial instruments owned, at fair value (\$6,108 million pledged as collateral)	6,838
Accrued interest receivable	75
Other assets	51
Total assets	22,455
Debt securities in issue, at fair value	269
Short-term borrowings	536
Payables to brokers, dealers, and other institutions	248
Payables to customers	28
Securities sold under agreements to repurchase, at fair value	19,489
Financial instruments sold, but not yet purchased, at fair value	1,060
Accrued interest payable	16
Other liabilities	89
Total liabilities	21,735
Subordinated liabilities	370
Common stock, par value \$1 per share, 10,000 shares authorized, 8,000 shares issued and outstanding	-
Additional paid-in capital	824
Retained earnings (deficit)	(473)
Accumulated other comprehensive income (loss)	(1)
Total stockholder's equity	350
Total liabilities and stockholder's equity	22,455

The accompanying notes are an integral part of this statement of financial condition.

Notes to Statement of Financial Condition

1. Organization and nature of business

NatWest Markets Securities Inc. (“NWMSI” or the “Company”) is a wholly owned subsidiary of RBS Holdings USA Inc. (“RBSHI”). RBSHI is a wholly owned subsidiary of NatWest Markets Group Holdings Corporation (“NWMGH”). NWMGH is a subsidiary of NatWest Markets Plc (“NWM Plc”), which provides global market access, financing, risk management and trading solutions to primarily global corporate and institutional clients. NWM Plc is a wholly owned subsidiary of NatWest Group plc (“NWG”).

The UK Government through His Majesty’s Treasury (“HMT”) is NWG’s largest single shareholder. The UK Government’s shareholding is managed by UK Government Investments Limited, a company wholly owned by HMT.

NWMSI is a registered broker-dealer and a registered Futures Commission Merchant (“FCM”) and, accordingly, is subject to the minimum net capital requirements of the U.S. Securities and Exchange Commission (“SEC”) and the U.S. Commodity Futures Trading Commission (“CFTC”). NWMSI is a primary dealer of U.S. Government securities and is principally engaged in the purchase, sale, and financing of U.S. Treasury, U.S. Government Agency debentures, U.S. Government Agency mortgage-backed securities, corporate debt, and the execution and clearance of exchange traded futures contracts and options on futures contracts. NWMSI also executes and clears Chicago Mercantile Exchange (“CME”) futures and options as necessary in relation to the Company’s and its affiliates’ house futures business. NWMSI transacts primarily with global corporate, institutional counterparties and government sponsored entities.

2. Significant accounting policies

Basis of presentation / use of estimates

This statement of financial condition has been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) that require management to make estimates and assumptions regarding compensation expense accruals, tax provision calculations including valuation allowance for deferred tax assets, provision for losses that may arise from litigation or regulatory matters, and other items that affect the statement of financial condition and related disclosures. These estimates and assumptions are based on judgment and available information and, consequently, actual results could be materially different from these estimates.

Cash and cash equivalents

NWMSI has defined cash equivalents as highly liquid investments including money market instruments, federal funds sold and overnight time deposits with original maturities of three months or less. Substantially all cash is on deposit with major money center banks. At June 30, 2024, there were no cash equivalents.

Receivables from and payables to brokers, dealers, other institutions, and customers

Receivables from brokers, dealers, and other institutions primarily include amounts receivable for securities not delivered by the Company to a purchaser by the settlement date (“fails-to-deliver”), clearing deposits and cash margin receivables on financing transactions. Payables to brokers, dealers, and other institutions primarily include net payables from unsettled trades, amounts payable for securities not received by the Company

from a seller by the settlement date (“fails-to-receive”) and cash margin payables on financing transactions.

Receivables from customers primarily include cash margin receivables on financing transactions and amounts receivable for securities not delivered by the Company to a customer by the settlement date (“delivery-versus-payment”). Payables to customers primarily include amounts payable for securities not received by the Company from a customer by the settlement date (“receive-versus-payment”) and cash margin payables on financing transactions.

Receivables and payables arising from unsettled securities transactions that have not reached their contractual settlement date are recorded net in the statement of financial condition. The Company reserves for receivables from brokers, dealers, and other institutions and from customers when the receivable is no longer believed to be collectible. Receivables and payables arising from fails-to-deliver, fails-to-receive, delivery-versus-payment, and receive-versus-payment transactions are presented on a net basis, by security and counterparty.

Debt securities in issue

NWMSI has issued senior unsecured debt to fund its liquidity needs and has elected to fair value the debt at initial recognition. The debt issuances can be sold in the secondary markets and, as such, the fair value is determined based on observed prices for similar instruments. The observed market price of these instruments reflects the effect of changes to Company’s credit spreads and market interest rates. The change in fair value attributable to credit risk is recognized in accumulated other comprehensive income (loss) within the statement of financial condition.

Interest rate exposure on the debt issued is hedged with U.S. Treasuries which are accounted for at fair value. The fair value option was elected on the debt issued in order to minimize profit and loss volatility when measured together with the change in value of the U.S. Treasuries hedging the interest rate exposure on the debt.

Collateralized financing arrangements

Collateralized financing transactions, including securities purchased under agreements to resell, securities borrowed and securities sold under agreements to repurchase, are carried at fair value under the fair value option which aligns economics of the transactions with other trading financial instruments owned or Financial instruments sold, but not yet purchased.

Securities subject to securities purchased under agreements to resell and securities sold under agreements to repurchase are principally U.S. Treasuries, U.S. Government Agency debentures and U.S. Government Agency mortgage-backed securities. Principal and accrued interest amounts are presented on a net basis when permitted under U.S. GAAP. It is generally NWMSI’s policy to obtain collateral with a market value equal to or in excess of the principal amount loaned under collateralized financing arrangements. Collateral is valued daily and NWMSI may require counterparties to deposit additional collateral or return pledged collateral when appropriate.

Notes to Statement of Financial Condition

2. Significant accounting policies continued

Securities subject to securities borrowed arrangements are primarily U.S. Treasuries and U.S. Government Agency debentures. Interest is accrued at the stipulated contract rate. NWMSI's policy is to monitor the value of the securities borrowed on a daily basis and to obtain additional collateral as is necessary.

Collateralized financing arrangements are generally valued based on inputs with reasonable levels of price transparency and are generally classified within Level 2 of the fair value hierarchy described below. The fair value is derived using valuation techniques incorporating the projected cash flows and the prevailing market repo rates.

Financial instruments

Regular-way securities transactions are recorded in the statement of financial condition on trade date and measured at fair value. Fair value is based generally on quoted market prices or dealer price quotations. To the extent that prices are not readily available, fair value is based on either internal valuation models or management's estimate of amounts that could be realized under current market conditions, assuming an orderly liquidation over a reasonable period of time.

Fair value measurements

Fair value is defined as the price that could be received in an asset sale or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Control environment

The independent price verification ("IPV") process is a key element of the control environment over the determination of the fair value of financial instruments. Valuations are first performed by the business which entered into the transaction. Such valuations may be directly observable from available prices, or may be derived using a model and variable inputs. These valuations are reviewed and, if necessary, amended by a team independent of those trading the financial instruments in light of available pricing evidence.

Monthly meetings are held between the business and the support functions to discuss the results of the IPV process. The IPV control includes formalized reporting and escalation of any valuation differences in breach of established thresholds.

All material methodology changes require review and ratification by a global IPV committee. This committee includes members representing several independent review functions including market risk and finance.

Valuation hierarchy

The accounting guidance for fair value measurements establishes a framework for measuring fair value using a three level hierarchy based upon the market observability and reliability of inputs used to value assets and liabilities, and requires enhanced disclosures about fair value measurements. Fair value measurement accounting guidance does not dictate when fair value should be the basis to account for a financial instrument, nor does it prescribe which valuation technique should be used. An entity is required to choose appropriate valuation techniques based upon market conditions, availability, reliability and observability of valuation inputs.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value based upon the transparency and observability of such inputs. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Level 1 – Valuations are based upon unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access at the measurement date. An active market is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Valuations are based upon either quoted prices for the same or like asset or liability in markets that are not active, or significant model inputs all of which are observable, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – Valuations are based upon prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Such inputs reflect management's own assumptions that the Company believes would be used by market participants in valuing the asset or liability but that are unobservable.

The level which a financial instrument is categorized under the fair value hierarchy is based on the lowest level input that is significant to the fair value measurement in its entirety. NWMSI reviews its fair value hierarchy classifications periodically and changes in the observability of valuation inputs and in their significance which may result in a transfer between fair value hierarchy level categories.

Leases

In instances where NWMSI is a lessee under an operating lease with an original term of greater than 12 months, the Company records a right of use asset ("RUA") and a corresponding lease liability which are recorded in other assets and other liabilities, respectively. The RUA and corresponding lease liability are determined as the present value of the consideration to be paid attributable to the lease components in the underlying contract, at inception. The RUA is assessed for impairment based on factors from the local corporate rental market and the Company's use of its office space.

The discount rate used is determined based on the Company's incremental borrowing rate at the commencement of the lease. When a lease grants an extension option, NWMSI would not factor the renewal option period into the calculation of a RUA or lease liability unless such option is reasonably certain to be exercised at the lease commencement date. Furthermore, the Company elects not to segregate certain non-lease components when recording the RUA or lease liability.

Litigation and other matters

NWMSI is involved, from time to time, in reviews, investigations and proceedings (both formal and informal) regarding its

Notes to Statement of Financial Condition

2. Significant accounting policies continued

businesses, certain of which may result in judgments, settlements, fines, penalties or other injunctions. NWMSI recognizes a contingent liability in other liabilities in the statement of financial condition when it is probable that a liability has been incurred and when the amount of loss can be reasonably estimated.

When a range of probable loss can be estimated, NWMSI accrues the most likely amount of such loss, and if such amount is not determinable, NWMSI accrues the minimum of the range of probable loss. The determination of the outcome and loss estimates requires significant judgment on the part of management. In many instances, it is not possible to determine the degree to which any loss is probable or reasonably estimable.

Income taxes

NWMSI is included in the consolidated federal and certain combined state income tax returns of NWMGH. In addition, the Company files returns on a separate company basis in certain jurisdictions as required. The Company's federal and certain combined state income taxes are calculated as if the Company filed a separate return and any tax attributes are utilized according to the combined return as filed, as opposed to a stand-alone calculation. The current federal and deferred federal and state provision/benefit from income taxes reflected in the statement of financial condition is settled monthly. The current state tax payables/receivables as per the combined state returns are settled monthly.

NWMSI's deferred income taxes are provided based upon the net tax effects of temporary differences between the U.S. GAAP and tax bases of assets and liabilities. In addition, deferred income taxes are determined using the enacted tax rates and laws which are expected to be in effect when the related temporary differences reverse.

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. On the basis of this evaluation, a valuation allowance has been recorded for the portion of the deferred tax asset that more likely than not will not be realized. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income are reduced or increased and additional weight may be given to subjective evidence such as our projections for growth.

NWMSI recognizes tax positions in the statement of financial condition only when it is more likely than not that the position will be sustained upon examination by the relevant taxing authority based on the technical merits of the position. A position that meets this standard is measured at the largest amount of benefit that will more likely than not be realized upon settlement. A liability is established for differences between positions taken in a tax return and amounts recognized in the statement of financial condition.

Compensation plan

The 2014 Employee Share Plan of NWG affects employees of the Company and requires that a predefined amount be paid in the current year with the remaining award to be deferred over a period of up to 56 months from the reporting date for awards

granted to date. Multiple payments are made to employees over the deferral period which will be settled in NWG equity shares or cash. Awards may be subject to forfeiture and clawback, as defined in the 2014 Employee Share Plan, at the discretion of the NWG Board of Directors' Remuneration Committee.

NWMSI recognizes compensation expense for each payment as if it was a separate award with a separate service period. The overall cost of each payment is measured at fair value as of the grant date, which may coincide with the end of the service period as a result of the clawback provision. At each reporting date, NWMSI estimates the fair value of each payment by utilizing the quoted market price for NWG equity shares. NWMSI does not expect to reimburse or receive payment from NWG for any increase or decrease in the value of the NWG equity shares. Recognition of additional compensation expense attributable to appreciation of NWG equity shares is accounted for as a capital contribution and decreases in compensation expense attributable to a decrease in the value of NWG equity shares are accounted for as a reduction of capital. NWMSI accrues compensation expense on a straight-line basis over the applicable service period for the fair value of each respective payment, less a provision for forfeitures. Management utilizes historical data to estimate the impact of forfeitures. The ultimate impact of forfeitures may materially differ from management's estimate.

In connection with the 2014 Employee Share Plan, employees in certain roles of the Company may be eligible for Role Based Allowances ("RBA") which are payable in cash and/or NWG equity shares. RBA is fixed compensation that settles in cash and/or the appropriate quantity of NWG equity shares which have an aggregate market value on RBA payment date equal to the RBA installment. NWMSI accrues compensation expense on a straight-line basis over the period the RBA is in effect.

Credit Losses

Each reporting period, the Company assesses assets not carried at fair value and off balance sheet credit exposures for credit losses in conjunction with the Current Expected Credit Loss ("CECL") model. The CECL model requires the Company to estimate expected credit losses over the contractual term of its financial assets as of the reporting date based on relevant information about past events, current conditions, and reasonable and supportable forecasts. In general, the assets that are not carried at fair value in the statement of financial condition include; cash, cash segregated under federal and other regulations, receivables from brokers, dealers, and other institutions, and receivables from customers. As a result of the daily settlement or short term nature of receivables, the amount of unsettled credit exposures is limited to the amount owed to the company for a very short period of time. The Company continually reviews the credit quality of its counterparties and has not experienced any significant defaults. As a result, the Company has not recorded a credit loss allowance on these assets not carried at fair value.

Recent accounting pronouncements

In November 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2023-07, Improvements to Reportable Segment Disclosures, which expands segment disclosure requirements for public entities that are required to report segment information in accordance with FASB

Notes to Statement of Financial Condition

2. Significant accounting policies continued

Accounting Standards Codification (FASB ASC) 280, Segment Reporting. The ASU requires public entities to disclose significant segment expenses that are regularly provided to the chief operating decision maker (“CODM”) and included within each reported measure of segment profit and loss. The amendments also require disclosure of all other segment items by reportable segment and a description of its composition. Additionally, the amendments require disclosure of the title and position of the CODM and an explanation of how the CODM uses the reported measure(s) of segment profit or loss in assessing segment performance and deciding how to allocate resources. The ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The Company is currently evaluating the impact that this guidance will have on its financial statements and related disclosures.

3. Cash and securities segregated under federal and other regulations

Under the provisions of SEC Rule 15c3-3, as of June 30, 2024, “qualified securities” (as defined under SEC Rule 15c3-3) with a fair value of \$19 million have been segregated for the exclusive benefit of customers and qualified securities with a fair value of \$1 million have been segregated for the exclusive benefit of accounts of brokers. Of the qualified securities, securities with a fair value of \$10 million are included in cash and securities segregated under federal and other regulations in the statement of financial condition. Additionally, securities received as collateral from securities purchased under agreements to resell transactions with a fair value of \$10 million have been segregated under federal and other regulations.

As a FCM, NWMSI is required to segregate funds in segregated funds accounts (under Section 4d(2) of the Commodity Exchange Act (“CEA”)) and secured funds held in separate accounts (under CFTC Regulation 30.7) and cleared swap customer accounts (under 4D(F) of the CEA). As of June 30, 2024, for these purposes, \$7 million is held in accounts at banks and reflected in the statement of financial condition as cash and securities segregated under federal and other regulations.

4. Securities purchased/sold under agreements to resell/repurchase and other collateralized financing agreements

The Company enters into various collateralized financing transactions to, among other things, acquire securities to cover short positions, to settle other securities obligations, and to finance the Company’s long inventory positions. The table below summarizes the type of collateralized financing arrangements, all of which are carried at fair value, reported in the statement of financial condition at June 30, 2024:

Assets	\$m
Securities purchased under agreements to resell	8,271
Securities borrowed	7,112
	15,383
Liabilities	
Securities sold under agreements to repurchase	19,489

In order to manage credit exposure arising from such transactions, the Company enters into master netting agreements and collateral agreements with counterparties that provide the Company the right to net a counterparty’s rights and obligations under such agreement and liquidate and setoff collateral against the net amount owed by the counterparty in the event of a counterparty default, such as bankruptcy or a counterparty’s failure to pay or perform. The Company generally takes possession of securities purchased under agreements to resell and securities borrowed and receives securities and cash posted as collateral with the right to re-hypothecate. In certain cases, the Company may agree for such collateral to be posted to a third party custodian under a tri-party arrangement that enables the Company to take control of such collateral in the event of a counterparty default. The Company also continuously monitors the fair value of the transactions’ underlying securities as compared with the related receivable or payable including accrued interest and requests additional collateral as provided under the applicable agreement to ensure such transactions are adequately collateralized.

Notes to Statement of Financial Condition

4. Securities purchased/sold under agreements to resell/repurchase and other collateralized financing agreements continued

The following table summarizes the offsetting of these instruments and related collateral amounts:

	Gross amounts \$m	Amounts offset in the Statement of Financial Condition \$m	Net amounts of assets/liabilities presented in the Statement of Financial Condition \$m	Amounts not offset in the Statement of Financial Condition ⁽¹⁾ \$m	Net exposure \$m
Assets					
Securities purchased under agreements to resell	34,497	(26,226)	8,271	(8,236)	35
Securities borrowed	7,112	-	7,112	(6,909)	203
Liabilities					
Securities sold under agreements to repurchase	45,715	(26,226)	19,489	(19,489)	-

Note:

(1) Amounts relate to transactions under master netting agreements and collateral agreements which have been determined by the Company to be legally enforceable in the event of default but where certain other criteria are not met in accordance with applicable offsetting accounting guidance.

NWMSI pledges collateral in conjunction with its securities sold under agreements to repurchase. At June 30, 2024, \$45,487 million of the Company's securities sold under agreements to repurchase were collateralized with U.S. Treasuries, U.S. Government Agency debentures and U.S. Government Agency mortgage-backed securities. Securities sold under agreements to repurchase with maturities of three months or less amounted to \$41,359 million, with the remaining transactions having maturities up to six months.

At June 30, 2024, \$41,526 million of the Company's securities purchased under agreements to resell and securities borrowed were collateralized with U.S. Treasuries, U.S. Government Agency debentures and U.S. Government Agency mortgage-backed securities. Securities purchased under agreements to resell and securities borrowed with maturities of six months or less amounted to \$41,408 million, with the remaining transactions having maturities up to seven months.

The Company has two committed secured lines of credit with third parties totaling \$900 million. The facilities would be collateralized primarily with U.S. Treasuries, if drawn, but neither facility was drawn as of June 30, 2024. In order to comply with the financial covenants of the agreements, the Company must maintain certain capital and leverage ratio requirements.

Included in the above collateralized financing arrangements, NWMSI enters into bilateral and centrally cleared transactions. NWMSI is also engaged as a sponsor of client collateralized financing agreements clearing through the Fixed Income Clearing Corporation ("FICC"), a central clearing counterparty.

5. Receivables and payables from/to brokers, dealers, and other institutions

The following table represents NWMSI's receivables and payables from/to brokers, dealers and other as of June 30, 2024:

	Assets \$m	Liabilities \$m
Unsettled trades	-	207
Securities failed-to-deliver/receive	35	20
Cash margin receivables/payables	10	21
Clearing deposits	16	-
Broker receivables/payables	1	-
	62	248

6. Receivables and payables from/to customers

The following table represents NWMSI's receivables and payables from/to customers as of June 30, 2024:

	Assets \$m	Liabilities \$m
Delivery/receive versus payment	-	23
Cash margin receivables/payables	1	5
	1	28

Notes to Statement of Financial Condition

7. Financial instruments

The following table presents NWMSI's financial instruments owned, at fair value, including those pledged as collateral, and financial instruments sold, but not yet purchased, at fair value, as of June 30, 2024:

	Assets \$m	Liabilities \$m
U.S. Treasuries	6,086	945
U.S. Government Agency debentures	532	66
U.K. Government obligations	108	-
Corporate debt securities and other	112	49
	6,838	1,060

8. Fair value measurements

NWMSI's assets and liabilities that are recorded at fair value have been categorized pursuant to a fair value hierarchy. See Note 2 for additional information regarding the fair value hierarchy.

In determining fair value, NWMSI separates financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value into categories (U.S. Treasuries, U.S. Government Agency debentures, U.K. Government obligations and Corporate debt securities and other). Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

At June 30, 2024, all of NWMSI's securities are classified within Level 1 or 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternate pricing sources with reasonable levels of price transparency. The types of instruments valued based on quoted market prices in active markets include primarily U.S. Treasuries, U.S. Government Agency debentures and U.K. Government obligations. Such instruments are principally classified as Level 1. The types of instruments that trade in markets that are not considered to be active, but are valued based on quoted market prices, broker or dealer quotations, or alternate pricing sources with reasonable levels of price transparency include Corporate debt securities and certain U.S. Government Agency debentures. These instruments are classified as Level 2.

The following table presents NWMSI's assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2024 by financial statement line item caption, type of instrument, and level within the fair value hierarchy:

	Level 1 \$m	Level 2 \$m	Total \$m
Assets			
Securities segregated under federal and other regulations ⁽¹⁾	10	-	10
Securities purchased under agreements to resell and other collateralized financing arrangements, at fair value	-	15,383	15,383
Financial instruments owned, at fair value:			
U.S. Treasuries	6,086	-	6,086
U.S. Government Agency debentures	331	201	532
U.K. Government obligations	108	-	108
Corporate debt securities and other	6	106	112
Total financial instruments owned, at fair value	6,531	307	6,838
Total assets at fair value	6,541	15,690	22,231
Liabilities			
Debt securities in issue, at fair value	-	269	269
Securities sold under agreements to repurchase, at fair value	-	19,489	19,489
Financial instruments sold, not yet purchased, at fair value:			
U.S. Treasuries	945	-	945
U.S. Government Agency debentures	52	14	66
Corporate debt securities and other	8	41	49
Total financial instruments sold, not yet purchased, at fair value	1,005	55	1,060
Total liabilities at fair value	1,005	19,813	20,818

Note:

(1) This population consists of U.S. Treasuries.

Notes to Statement of Financial Condition

8. Fair value measurements continued Financial instruments not carried at fair value

The following table presents the carrying values and estimated fair values of certain financial assets and liabilities that are not measured at fair value as of June 30, 2024, including their classification within the fair value hierarchy:

	Carrying Value	Estimated Fair Value			Total
		Level 1	Level 2	Level 3	
	\$m	\$m	\$m	\$m	\$m
Assets					
Cash and cash equivalents	28	28	-	-	28
Cash segregated under federal and other regulations	7	7	-	-	7
Receivables from brokers, dealers and other institutions	62	-	62	-	62
Receivables from customers	1	-	1	-	1
Accrued interest receivable	75	-	75	-	75
Other assets	23	8	21	2	31
Liabilities					
Short-term borrowings	536	-	536	-	536
Payables to brokers, dealers and other institutions	248	-	248	-	248
Payables to customers	28	-	28	-	28
Accrued interest payable	16	-	16	-	16
Other liabilities	89	-	89	-	89
Subordinated liabilities	370	-	376	-	376

Generally, the carrying value of the Company's assets and liabilities in the table above approximates fair value due to the relatively short-term nature of the instruments.

9. Risk management

As a participant in the government securities and credit markets, NWMSI is exposed to various risks that arise in the normal course of its business. The risks to which NWMSI are subject include market, credit, operational, legal, regulatory and financial control risks.

NWMSI monitors and controls its risk exposures on a daily basis through financial, credit and market risk management monitoring systems that are independent of the front office. Accordingly, NWMSI believes that it has effective procedures for evaluating and limiting, where possible, the market, credit, operational and other risks to which it is subject. NWMSI's Board of Directors and senior management have an active role in the risk management process. Their oversight responsibility is discharged through documented policies, procedures, and controls, and through governance forums where the relevant business and function representatives participate. These forums include, but are not limited to the Board of Directors, NatWest Markets US Management Committee, NatWest Markets US Asset and Liability Committee, the Underwriting Commitments Committee, the Business Taxonomy & Transaction Approval Policy ("BTTAP"), Change Risk Review ("CRR") Process, and the Credit Approval Process. In addition, the Company's risk management practices are subject to periodic review by the Company's internal auditors and risk management team.

Market risk

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities, or other market factors, such as liquidity, will result in market value losses for a position or portfolio. The Company's exposure to

market risk is affected by the characteristics of the markets in which the Company participates.

Market risk is monitored daily and controlled through risk limits, position limits, management oversight, stress testing and regular independent pricing reviews.

The Company attempts to control its market risk exposures through hedging strategies and a wide variety of quantitative and qualitative monitoring and analytical review mechanisms, including Value-at-Risk measures.

Credit risk

Credit risk arises from the potential that a counterparty to a transaction with the Company or an issuer of securities or underlying instruments held by NWMSI might fail to perform under its contractual obligations, which could result in NWMSI incurring losses.

The Company controls credit risk by monitoring counterparty credit exposures and haircut and collateral values on a daily basis, following an established credit approval process (which includes reviewing the financial health of counterparties at inception of the relationship with the Company), and, on an ongoing basis, requiring collateral to be deposited with the Company or haircut levels to be adjusted when deemed necessary. Collateral held is most often in the form of U.S. Treasuries, U.S. Government Agency debentures, U.S. Government Agency mortgage-backed securities or cash. The Company has established credit limits for issuers and counterparties that are also monitored on a daily basis. The Company further reduces credit risk, where appropriate, by

Notes to Statement of Financial Condition

9. Risk management continued

entering into enforceable netting agreements and arrangements that enable the Company to terminate the agreement or reset specific contractual terms upon the occurrence of certain events or time periods.

Concentrations of credit risk

Concentrations of credit risk arise when a number of customers or counterparties are engaged in similar business activities or activities in the same geographic region, or when they have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. The Company's credit concentrations may arise from trading, underwriting and financing activities. The Company monitors credit risk on both an individual issuer and group counterparty basis, as well as by sector.

The Company is engaged in various activities serving a diverse group of corporate and institutional investors. A substantial portion of the Company's transactions are executed with financial institutions that include broker-dealers, commercial banks, money managers and insurance companies. The Company's exposure to credit risk can be directly impacted by political, industry, and economic factors including volatile trading markets which may impair counterparties' ability to satisfy their obligations to the Company.

The Company's largest concentration of credit risk and issuer risk relates to securities issued by the U.S. Government and U.S. Government Agencies. At June 30, 2024, financial instruments owned that were obligations of the U.S. Government or U.S. Government Agencies represented approximately 97% of the Company's financial instruments owned, at fair value. At June 30, 2024, substantially all of the Company's securities purchased under obligations to resell and other collateralized financing arrangements, at fair value were collateralized by such obligations, after any netting.

10. Debt securities in issue

NWMSI has issued senior unsecured debt to fund its liquidity needs. At June 30, 2024, NWMSI had the following debt securities in issue, at fair value set forth below with third parties:

	Outstanding Balance \$m	Fair Value Adjustment \$m	Total Debt Securities in Issue \$m	Weighted Average Interest Rates
Maturing within 1 year	105	(1)	104	3.06%
Maturing in 2-3 years	95	(4)	91	3.67%
Maturing in over 5 years	80	(6)	74	3.99%
	280	(11)	269	

Other risks

Non-financial risks including operational, legal, regulatory and financial control risk relate to losses the Company may incur due to items such as the failure in execution and settlement of securities transactions, deficiencies in legal documentation or compliance, or inadequacies in financial control systems.

Operational risk is managed through the creation and monitoring of key risk indicators, the oversight of the risk control environment through End-to-End Risk & Control Self-Assessments ("RCSAs") and other assurance activities, escalation procedures for risk events, the promulgation of documented policies, risk standards, tool kits and operating procedures, and information systems that monitor and track operational risk issues. New products and significant change are risk assessed and approved via the BTTAP and CRR processes.

Legal and regulatory risk is managed through the assistance of the in-house Legal and Compliance Department staffed with experienced attorneys and compliance professionals knowledgeable in the Company's areas of business. NWMSI's in-house lawyers and compliance professionals work closely with the business on significant transactions, develop, maintain and utilize standard transaction documentation, obtain assistance and advice from experienced outside counsel as needed, and establish and communicate to employees and their supervisors, written policies and procedures for the proper conduct of business in accordance with applicable law, regulation and NWMSI policy.

NWMSI seeks to minimize financial control risk through the segregation of responsibility for key functions involved in the gathering, analysis, and presentation of financial information, documented policies and procedures that establish authorized signatories and approvers for various key financial control activities, use of external resources for price verification, and multiple reconciliation and confirmation processes performed at regular intervals.

Notes to Statement of Financial Condition

11. Short-term borrowings

In addition to obtaining short-term secured financing through the repurchase and securities lending markets and available secured lines of credit, NWMSI can obtain short-term unsecured financing from NWMGH and NWM Plc. At June 30, 2024, borrowing was available to the Company from NWM Plc pursuant to a \$1,100 million committed unsecured revolving credit facility with a maturity date of December 31, 2025.

At June 30, 2024, NWMSI had the following short-term borrowings with maturities of one month or less.

	\$m	Weighted Average Interest Rates
NatWest Markets Plc	483	5.79%
NatWest Markets Group Holdings Corp.	53	5.79%
	536	

12. Subordinated liabilities

At June 30, 2024, NWMSI had \$370 million of subordinated liabilities with NWM Plc which had an interest rate that fluctuates with the Secured Overnight Financing Rate ("SOFR"). The agreement includes a one-year auto extension feature if not called 13 months in advance of the maturity date. The current scheduled maturity is in December 2025.

The liabilities are subordinated to the claims of general creditors of the Company and have been approved by the Company's regulators as regulatory capital. These subordinated liabilities are included by the Company in computing regulatory net capital. To the extent that the borrowings are required for NWMSI's continued compliance with minimum net capital requirements, they may not be repaid.

13. Commitments and contingencies Leases and related commitments

NWMSI has three non-cancelable operating lease commitments, principally for office space, that expire between 2025 and 2032 which have a weighted average remaining maturity of approximately seven years. At June 30, 2024, the RUA and corresponding lease liability were approximately \$26 million and \$37 million, respectively, which are reported in other assets and other liabilities and discounted at a weighted average rate of 4.04%.

NWMSI has evaluated its RUA for impairment based on its current business office space needs and subleased office space. There weren't any circumstances indicating the need for impairment in the current year. The cumulative impact of that assessment has resulted in a total impairment of \$8 million on the RUA as of June 30, 2024, which is included in the above balance.

Minimum future undiscounted rental commitments under non-cancelable operating leases are set forth as follows:

	\$m
2024 (remainder of year)	3
2025	6
2026	6
2027	6
2028	6
Thereafter	15
Total lease payments (undiscounted)	42
Computed interest	5
Total present value of lease liabilities (discounted)	37

Borrow versus pledge

In transactions where NWMSI acts as the net borrower in a securities exchange, the securities borrowed and pledged are treated as off-balance-sheet transactions. At June 30, 2024, NWMSI had pledged securities with a fair value of approximately \$1,844 million against borrowed securities with a fair value of approximately \$1,792 million.

Forward financing arrangements

In connection with its financing activities, including securities borrowed and pledged activities, NWMSI had outstanding commitments to enter into future collateralized lendings of approximately \$9,699 million and had commitments to enter into future collateralized borrowings of approximately \$8,183 million as of June 30, 2024. All such commitments mature within one month.

Notes to Statement of Financial Condition

13. Commitments and contingencies continued Central clearing counterparty commitment

As a member of the FICC, in the event of a member default, NWMSI has a commitment to enter into a collateralized lending with FICC in order to provide liquidity. The maximum amount of lending is based on the activity and volume of NWMSI that is attributable to the FICC platform. The collateralized lending will always be backed by U.S. Treasuries and U.S. Government Agency securities. As of June 30, 2024, the Company did not have any lendings outstanding under this commitment.

Underwriting commitments

In the normal course of business, the Company enters into underwriting contracts. There were no open commitments at June 30, 2024.

Litigation

NWMSI is party to legal proceedings, and the subject of investigations and regulatory matters in the United States and other jurisdictions, arising out of its normal business operations.

All such matters are periodically reassessed with the assistance of external professional advisers, where appropriate, to determine the likelihood of NWMSI incurring a liability. NWMSI recognizes a provision for a liability in relation to these matters when it is probable that there is a present loss contingency resulting from a past event, and a reasonable estimate can be made of the amount of the loss contingency.

In many proceedings, it is not possible to determine whether any loss is probable or to estimate the amount of any loss or possible range of loss. Numerous legal and factual issues may need to be resolved, including through potentially lengthy discovery and determination of important factual matters, and by addressing novel or unsettled legal questions relevant to the proceedings in question, before a liability can be reasonably estimated for any claim. NWMSI cannot predict if, how, or when such claims will be resolved or what the eventual settlement, fine, penalty or other relief, if any, may be, particularly for claims that are at an early stage in their development or where claimants seek substantial or indeterminate damages.

There are also situations where NWMSI may enter into a settlement agreement or recognize a provision in contemplation of a potential settlement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, or in order to take account of the risks inherent in defending claims or investigations even for those matters for which NWMSI believes it has credible defenses and should prevail on the merits. The uncertainties inherent in all such matters affect the amount and timing of any potential outflows and any provisions that have been established.

While the outcome of the legal proceedings, investigations and regulatory matters in which NWMSI is involved is inherently uncertain, management believes that, based on the information available to it, appropriate accounting provisions have been made in respect of legal proceedings, investigations and regulatory matters as of June 30, 2024.

The material litigation, investigations, and regulatory matters in which NWMSI is involved are described below. If any such

matters were resolved against NWMSI, these matters could, individually or in the aggregate, have a material adverse effect on NWMSI's net assets, operating results, or cash flows in any particular period. NWMSI cannot predict the outcome of these matters at this stage and is unable to estimate the liability or possible range of loss in excess of any provision accrued, if any, that might arise or its effect on NWMSI's statement of financial condition.

Litigation matters

With respect to all of the current claims described herein, NWMSI considers that it has substantial and credible legal and factual defenses to these claims and will continue to defend them vigorously.

U.S. Treasury securities antitrust litigation

NWMSI is a defendant in a consolidated antitrust class action pending in the United States District Court for the Southern District of New York on behalf of persons who transacted in U.S. Treasury securities or derivatives based on such instruments, including futures and options. The plaintiffs allege that NWMSI and the other defendants rigged the U.S. Treasury securities auction bidding process to deflate prices at which they bought such securities and colluded to increase the prices at which they sold such securities to plaintiffs. On March 31, 2022, the district court dismissed the operative complaint in this matter, without leave to re-plead. On February 1, 2024, the United States Court of Appeals for the Second Circuit affirmed the district court's decision dismissing the complaint and the plaintiffs did not subsequently seek review by the United States Supreme Court.

European government bonds antitrust litigation

Class action antitrust claims commenced in March 2019 are pending in the United States District Court for the Southern District of New York against NWM Plc, NWMSI, and other banks. The complaint alleges a conspiracy among dealers of Euro-denominated bonds issued by European central banks ("EGBs"), to widen the bid-ask spreads they quoted to customers, thereby increasing the prices customer paid for the EGBs or decreasing the prices at which customers sold the bonds. The class consists of those who purchased or sold EGBs in the U.S. between 2007 and 2012. In March 2024, NatWest Group companies reached an agreement, subject to court approval, to settle the class action. The settlement amount is covered in full by an existing provision held at an affiliate.

Swaps antitrust litigation

NWM Plc, NWMSI, and NWG, as well as a number of other financial institutions, are defendants in several cases pending in the United States District Court for the Southern District of New York alleging violations of the U.S. antitrust laws in the market for interest rate swaps. There is a consolidated class action complaint on behalf of persons who entered into interest rate swaps with the defendants, as well as non-class claims by three swap execution facilities, TeraExchange, Javelin, and trueEx. The swap exchange facilities allege that they would have successfully established exchange-like trading of interest rate swaps if the defendant dealers had not unlawfully conspired to prevent that from happening through boycotts and other means.

In July 2017, the Court overseeing the above matters dismissed all claims relating to the 2008 - 2012 time period, but declined to dismiss certain antitrust and unjust enrichment claims covering

Notes to Statement of Financial Condition

13. Commitments and contingencies continued

the 2013 - 2016 time period. Discovery in these cases is complete. In March 2024, NatWest Group companies reached an agreement to settle the class action, which remains subject to court approval. The settlement amount has been paid into escrow pending court approval and was covered in full by an existing provision held at an affiliate. The claims by the three swap execution facilities are not part of the settlement and remain pending.

On June 30, 2021, a class action antitrust complaint was filed against a number of credit default swap dealers in New Mexico federal court on behalf of persons who, from 2005 onwards, settled credit default swaps in the United States by reference to the ISDA credit default swap auction protocol. The complaint alleges that the defendants conspired to manipulate that benchmark through various means in violation of the antitrust laws and the Commodity Exchange Act. The defendants filed a motion to dismiss the complaint and, in June 2023, such motion was denied as regards NWMSI and other financial institutions, but granted as regards NWM Plc on the ground that the court lacks jurisdiction over that entity. As a result the case entered the discovery phase as against the non-dismissed defendants. On January 26, 2024, the United States District Court for the Southern District of New York issued an order barring the plaintiffs in the New Mexico case from pursuing claims based on conduct occurring before June 30, 2014 on the ground that such claims were extinguished by a 2015 settlement agreement that resolved a prior class action relating to credit default swaps. That decision is the subject of a pending appeal to the United States Court of Appeals for the Second Circuit.

Odd lot corporate bond trading antitrust litigation

NWMSI is the subject of a class action antitrust complaint filed in the United States District Court for the Southern District of New York against NWMSI and several other securities dealers. The complaint alleges that, from August 2006 to the present, the defendants conspired artificially to widen spreads for odd lots of corporate bonds bought or sold in the United States secondary market and to boycott electronic trading platforms that would have allegedly promoted pricing competition in the market for such bonds. In October 2021, the district court granted defendants' motion to dismiss the complaint in this matter, but in July 2024, the United States Court of Appeals for the Second Circuit vacated that decision, holding that the district judge who made the decision should not have been presiding over the case because a member of the judge's family had owned stock in one of the defendants while the motion was pending. The case will now return to the district court level where the defendants will seek dismissal by a different district court judge.

LIBOR litigation

NWM Plc, certain of its subsidiaries (including in some instances, NWMSI), and NWG ("NWM defendants") are defendants in a number of class actions and individual claims filed in the U.S. with respect to the setting of LIBOR and certain other benchmark interest rates. The complaints are substantially similar and allege that these NWM defendants and other panel banks individually and collectively violated various federal laws, including the U.S. commodities and antitrust laws, and state statutory and common law, as well as contracts, by

manipulating LIBOR and prices of LIBOR-based derivatives in various markets through various means.

Several class actions relating to USD LIBOR, as well as more than two dozen non-class actions concerning USD LIBOR, are part of a coordinated proceeding in the United States District Court for the Southern District of New York. The class actions include claims on behalf of persons who purchased LIBOR-linked instruments from defendants, bonds issued by defendants, persons who transacted futures and options on exchanges, and lenders who made LIBOR-based loans. The coordinated proceeding is currently in the discovery phase. In March 2024, NatWest Group companies reached an agreement, which remains subject to final court approval, to settle the USD LIBOR class action that asserts claims on behalf of lenders who made LIBOR based loans. In April 2024, NatWest Group companies reached an agreement, which remains subject to final court approval, to settle the USD LIBOR class action that asserts claims on behalf of persons who transacted futures and options on exchanges. The settlement amounts have been paid into escrow pending court approval and were covered in full by existing provisions held at an affiliate.

In August 2020, an antitrust complaint was filed in the United States District Court for the Northern District of California by a number of borrowers and consumers of loans and credit cards with variable interest rates. The defendants are USD ICE LIBOR panel banks and their affiliates, including NWG, NWM Plc, NWMSI, and National Westminster Bank Plc. The plaintiffs purport to seek damages and to prevent the enforcement of LIBOR-based instruments through injunction, alleging that the process of setting USD ICE LIBOR, and an alleged agreement to use LIBOR as a component of interest charged in variable interest rate consumer loans, amounts to an illegal conspiracy to fix prices and to monopolize trade. In September 2022, the district court dismissed the complaint, subject to re-pleading by the plaintiffs. Plaintiffs filed an amended complaint but in October 2023, the district court dismissed that complaint as well, and indicated that further amendment would not be permitted. Plaintiffs have commenced an appeal to the United States Court of Appeals for the Ninth Circuit.

Spoofing litigation

In December 2021, three substantially similar class actions complaints were filed in federal court in the United States against NWM Plc and NWMSI alleging Commodity Exchange Act and common law unjust enrichment claims arising from manipulative trading known as spoofing. The complaints – which have now been consolidated in the United States District Court for the Northern District of Illinois – refer to NWM Plc's December 2021 spoofing-related guilty plea (described below under "US investigations relating to fixed-income securities") and purport to assert claims on behalf of those who transacted in US Treasury securities and futures and options on US Treasury securities between 2008 and 2018. Defendants filed a motion to dismiss in July 2022.

Other litigation involving NWMSI

In addition, NWMSI is named as a defendant in other actions. For example, NWMSI was until recently an underwriter defendant in a class action in which plaintiffs generally allege that an issuer of public securities, as well as the underwriters of the securities (including NWMSI), were liable to purchasers for

Notes to Statement of Financial Condition

13. Commitments and contingencies continued

misrepresentations and omissions made in connection with the offering of such securities. The issuer of securities settled this matter on behalf of itself and (pursuant to an indemnification agreement) the underwriters, and the federal court in Pennsylvania overseeing the matter approved the settlement on August 9, 2023. The settlement did not require any monetary contribution from NWMSI.

From time to time, NWMSI also responds to claims from former employees concerning employment related issues and compensation.

NWMSI cannot predict the outcome of all of the cases under litigation matters at this stage and is unable to estimate the liability or possible range of loss in excess of any provision accrued, if any, that might arise or its effect on NWMSI's financial position.

Regulatory matters

The businesses and financial condition of NWM Plc, including NWMSI and its affiliates, can be affected by the actions of various governmental and regulatory authorities in the United States, the United Kingdom, the European Union ("EU"), and elsewhere. NWM Plc, including NWMSI and its affiliates, have engaged, and will continue to engage, in discussions with relevant governmental, regulatory and self-regulatory authorities, including in the U.S., the UK, the EU, and elsewhere, on an ongoing and regular basis, and in response to informal and formal inquiries or investigations, regarding operational, systems and control evaluations and issues including those related to compliance with applicable laws and regulations, including consumer protection, business conduct, competition/anti-trust, anti-bribery, anti-money laundering and sanctions regimes. Any matters discussed or identified during such discussions and inquiries may result in, among other things, further inquiry or investigation, other action being taken by governmental and regulatory authorities, increased costs being incurred, remediation of systems and controls, public or private censure, restriction of business activities and/or fines. Any of the events or circumstances mentioned in this paragraph or below could have a material adverse effect on NWMSI, its business, authorizations and licenses, reputation, results of operations or the price of securities issued by it.

U.S. investigations relating to fixed-income securities

NWMSI is or has been involved in investigations (both formal and informal) by federal and state governmental law enforcement and other agencies and self-regulatory agencies relating to, among other things, trading in US Treasuries and other fixed-income securities.

In December 2021, NWM Plc pled guilty in the United States District Court for the District of Connecticut to one count of wire fraud and one count of securities fraud in connection with historical spoofing conduct by former employees in US Treasuries markets between January 2008 and May 2014 and, separately, during approximately three months in 2018. The 2018 trading occurred during the term of a non-prosecution agreement ("NPA") between NWMSI and the United States Attorney's Office for the District of Connecticut ("USAO CT"), under which non-prosecution was conditioned on NWMSI and

affiliated companies not engaging in criminal conduct during the term of the NPA. The relevant trading in 2018 was conducted by two NWM traders in Singapore and breached that NPA. The plea agreement reached with the US Department of Justice and the USAO CT resolves both the spoofing conduct and the breach of the NPA.

As required by the resolution and sentence imposed by the court, NWM Plc is subject to a three-year period of probation. The plea agreement also imposes an independent monitor. In addition, NWM Plc has committed to compliance program reviews and improvements and agreed to reporting and cooperation obligations.

The guilty plea, failure to comply with the undertakings made to regulators, failure to comply with the conditions of probation, or adverse outcomes from future legal or regulatory actions could result in additional measures or penalties being taken, increase the risk of greater regulatory and third party scrutiny, and have material collateral consequences for NWMSI and its affiliates.

These may include consequences resulting from the need to reapply for various important licenses or obtain waivers to conduct certain existing activities of NWMSI and its affiliates, which may take a significant period of time and the results of which are uncertain. Failure to obtain such licenses or waivers could adversely impact the business of NWMSI and its affiliates, including if it results in the business being precluded from carrying out certain activities.

14. Guarantees

In the normal course of its business, NWMSI may be party to various types of guarantees with counterparties in connection with certain underwriting, asset sale and other transactions. Contracts that fall under the definition of guarantees include contracts that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying obligation that is related to an asset, a liability or an equity security of the guaranteed party, contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement, and indirect guarantees of the indebtedness of others even though the payment to the guaranteed party may not be based on changes related to an asset, a liability or an equity security of the guaranteed party.

Indemnifications

NWMSI provides representations and warranties to counterparties in connection with, among other things, certain financing, asset-sale and underwriting transactions and occasionally provides indemnifications to those counterparties against potential losses caused by a breach of those representations and warranties. These and other indemnifications are ordinarily documented on the basis of negotiated market terms and are entered into in the normal course of business. Generally, there are no stated or notional amounts included in these indemnifications, and the events or contingencies triggering the obligation to indemnify are generally not expected to occur except as described in Note 13. Accordingly, NWMSI has determined that it is not possible to develop an estimate of the maximum payout under these indemnifications. NWMSI has not recorded any liabilities in the

Notes to Statement of Financial Condition

14. Guarantees continued

statement of financial condition as of June 30, 2024 related to these indemnification arrangements.

Other guarantees

NWMSI is a member of various exchanges and clearing houses that trade, settle, and clear securities and/or futures contracts. Under standard membership agreements, NWMSI guarantees the performance of other members and may be required to pay a proportionate share of the obligations of such exchanges or clearing houses in the event of member defaults. This risk is mitigated in many cases by the exchanges or clearing houses requiring its members to post collateral. NWMSI has not recorded any liabilities in the statement of financial condition as of June 30, 2024 related to these arrangements as it believes that it is unlikely that it will have to make material payments under such arrangements.

In addition, NWMSI may be obligated to make payments to the relevant clearing house to the extent that a customer cannot meet its obligations to such clearing house under the relevant agreement. This risk is mitigated by requiring clearing customers to post collateral to NWMSI in an amount not less than what is required by the clearing house. In conjunction with transactions where the Company is acting as a sponsoring member of FICC, at June 30 2024 the maximum potential payable under the sponsored transactions is \$8,739 million with maturities under one month. These transactions are all collateralized with U.S. Treasuries.

15. Income taxes

NWMSI's deferred income taxes arise principally from liabilities not currently deductible and net operating losses. NWMSI has federal net operating loss carry forwards from years prior to 2018 of \$2,862 million which are offset by a full valuation allowance expiring in various years through 2037 and has federal net operating loss carry forwards from 2018 and after of \$254 million which are offset by a full valuation allowance and can be carried forward indefinitely. NWMSI has state net operating loss carry forwards of \$3,009 million which are offset by a full valuation allowance expiring in various years through 2042.

Management has determined that it is more likely than not that the benefit from all of the federal and state deferred tax assets will not be realized. In recognition of this risk, all of NWMSI's federal and state deferred tax assets were offset by a \$865 million valuation allowance as of June 30, 2024. For the year ended June 30, 2024, the increase in the valuation allowance for the current year was \$1 million.

The table below presents information about assets pledged as of June 30, 2024:

Financial instruments owned, at fair value pledged to counterparties that:	\$m
Had the right to deliver or repledge	4,513
Did not have full rights to deliver or repledge	1,595

NWMSI settles its income tax provision (or benefit) with RBSHI by agreement through intercompany accounts. At June 30, 2024, the amount payable to RBSHI for income taxes was approximately \$262 thousand and is included net in other liabilities.

As of June 30, 2024, NWMSI had approximately \$365 thousand of total gross unrecognized tax benefits. Of the total unrecognized tax benefits, substantially all represents the amount of the unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate in future periods. Accrued interest related to uncertain tax positions amounted to \$42 thousand as of June 30, 2024.

NWMSI is under audit in certain jurisdictions. As a part of a combined tax return, NWMSI is under audit in New York City for tax year 2015. Consequently, the New York City statute of limitations remains open for tax years 2015 and forward. For the open audits, management anticipates that adjustments to the unrecognized tax benefits, if any, will not result in a material change to the statement of financial condition. The statute of limitations for federal remains open for tax years 2020 and forward. The statute of limitations for other states remains open for tax years 2019 and forward.

16. Collateral

In connection with its trading activities, particularly in U.S. Government and Agency securities, NWMSI enters into collateralized repurchase agreements, securities lending arrangements and certain other collateralized transactions. Such transactions may result in credit exposure in the event the counterparty to the transaction is unable to fulfil its contractual obligations.

At June 30, 2024, NWMSI has accepted collateral that it is permitted by contract to sell or repledge. This collateral consists primarily of securities received in connection with reverse repurchase agreements with institutional clients and other broker dealers. The fair value of collateral received, excluding the impact of netting, at June 30, 2024 was approximately \$41,307 million. In the normal course of business, this collateral is primarily used by NWMSI to cover short sales and to obtain financing. At June 30, 2024, primarily all of the above collateral has been delivered against securities sold short or repledged by NWMSI.

NWMSI also pledges certain financial instruments owned, at fair value in connection with repurchase agreements and securities lending agreements to counterparties who may or may not have the right to deliver or repledge them.

Notes to Statement of Financial Condition

17. Net capital requirements

As a registered broker-dealer and FCM, NWMSI is subject to the net capital rules of both the SEC (Rule 15c3-1) and the CFTC (Regulation 1.17).

Under the SEC's "Uniform Net Capital Rule", NWMSI has elected to compute its minimum net capital using the alternative method. As such, NWMSI is required to maintain minimum net capital of the greater of:

- 2% of aggregate customer debit items, or
- \$1 million, as defined in SEC Rule 15c3-3 (SEC Rule 15c3-1(a)(1)(ii)), 4% of the funds required to be segregated pursuant to the Commodity Exchange Act and the regulations thereunder (SEC Rule 15c3-1(a)(1)(iii)), or
- 8% of the total risk margin requirement for positions carried in customer and non-customer accounts (CFTC Regulation 1.17(a)).

At June 30, 2024, NWMSI had regulatory net capital of \$561 million, which was \$560 million in excess of its required minimum net capital of \$1 million.

Advances to affiliates, repayment of subordinated liabilities, dividend payments, and other equity withdrawals are subject to certain notification and other provisions of the SEC Uniform Net Capital Rule and other regulatory bodies.

18. Employee benefit plan

Employees of NWMSI are eligible to participate in the NatWest Markets Retirement Savings Plan (the "Plan"), a defined contribution plan, based on the Plan's eligibility requirements. Newly hired or participating employees are automatically

enrolled in the Plan, unless they make an affirmative election declining their participation. Automatically enrolled employees are subject to default salary reduction, pre-tax deferrals for the relevant payroll period, unless other elections are made, subject to the other contribution limits and terms set forth in the Plan. NWMSI, as the Plan sponsor, matches a portion of its employee participant contributions and additionally, makes an annual employer core non-elective contribution in accordance with the Plan.

19. Related party transactions

In the normal course of business NWMSI conducts transactions with, and provides operational and administrative support to, affiliated companies for which it receives consideration. In addition, certain NWMSI activities are guaranteed by NWM Plc.

The Company's assets and liabilities with affiliates include collateralized financing arrangements primarily entered into with NWM Plc and NatWest Markets Securities Japan, primarily to facilitate client activities and to cover short sales and to finance financial instruments owned. Interest is accrued on these transactions and is reported in accrued interest receivable/payable. Included in receivables from brokers, dealers, and other institutions are primarily fails-to-deliver and cash margin receivables on financing transactions. Payables to brokers, dealers, and other institutions primarily include net payables from unsettled trades and cash margin on financing transactions. Payables to customers include receive-versus-payment primarily with NWM Plc.

Other assets primarily include receivables for payments made on behalf of affiliates, as well as receivables in conjunction with operational support provided in the normal course of business. Other liabilities include payables to affiliates in conjunction with operational support received in the normal course of business.

Notes to Statement of Financial Condition

19. Related party transactions continued

The following table summarizes NWMSI's assets and liabilities as of June 30, 2024 with affiliated companies.

	\$m
Receivables from brokers, dealers, and other institutions	29
Securities purchased under agreements to resell and other collateralized financing arrangements, at fair value	4,488
Financial instruments owned, at fair value	32
Accrued interest receivable	9
Other assets	9
Total assets	4,567
Short-term borrowings	536
Payables to brokers, dealers and other institutions	34
Payables to customers	4
Securities sold under agreements to repurchase, at fair value	107
Financial instruments sold, but not yet purchased, at fair value	6
Accrued interest payable	1
Other liabilities	17
Subordinated liabilities	370
Total liabilities	1,075

20. Subsequent events

NWMSI has evaluated subsequent events for adjustment to or disclosure in its statement of financial condition through August 19, 2024, the date the statement of financial condition was issued. No recordable or disclosable events occurred through this date.

* * * *