NatWest

NatWest Bank Group
Interim Results 2022

National Westminster Bank Plc

National Westminster Bank Plc
Interim results for the period ending 30 June 2022

NatWest Bank Group (NWB Group) reported an attributable profit for the period of £1,892 million, compared to an attributable profit of £1,699 million in H1 2021.

The results of NWB Group in the first half of the year reflect a strong operating performance across the core franchises with good growth in key areas underpinned by a robust loan book and balance sheet. An impairment release of £18 million reflects strong economic indicators across our lending books, and default levels remain low, however we recognise the continued uncertainty in the economic outlook.

A strong balance sheet and prudent approach to risk means NWB Group remains well placed to support our customers to recover and grow during this period of continued uncertainty.

Strong H1 2022 performance

- Attributable profit for the period was £1,892 million compared with an attributable profit of £1,699 million in H1 2021.
- Total income increased by £1,225 million to £5,671 million compared with £4,446 million in H1 2021, reflecting the beneficial impact of recent base rate increases and volume growth.
- Operating expenses increased by £178 million to £3,030 million, compared with £2,852 million in H1 2021 principally due to continued investment in the capability of the business.
- The cost:income ratio has decreased from 64% to 53%.
- A net impairment release of £18 million in H1 2022 compared with a release of £438 million in H1 2021, reflects further non-default portfolio releases and low levels of realised losses seen across our portfolio.

Robust balance sheet underpins prudent increase in lending

- Total assets increased by £2.5 billion to £437.1 billion compared with £434.6 billion as at 31 December 2021.
- Net loans to customers increased by £7.7 billion driven primarily by continued strong growth in retail mortgages.
- Customer deposits increased by £10.0 billion as customers continued to build and retain liquidity, and due to an increase in repos.
- The CET1 ratio decreased to 11.6% from 16.1%. This is due to a £1.6 billion decrease in CET1 capital and a £20.0 billion increase in RWAs. The CET1 decrease reflects a £2.3 billion foreseeable dividend, a decrease of £0.2 billion in the IFRS 9 transitional adjustment, the removal of adjustment for prudential amortisation on software development costs of £0.4 billion and other reserve movements in the period. This is partially offset by the attributable profit in the period.
- Total RWAs increased by £20.0 billion in the period primarily reflecting an increase in credit risk due to model adjustments applied as a result of new regulation applicable to IRB models from 1 January 2022, in addition to increased exposures within Commercial & Institutional and Retail Banking. This was partially offset by improved risk metrics in Commercial & Institutional and Retail Banking.

Financial review

Financial performance summary

The following tables provide a segmental analysis of operating profit by the main income statement captions and a note of the key performance metrics and ratios.

	Retail Banking	Private Banking	Commercial & Institutional	Central items & other	Half year ended 30 June 2022	Half year ended 30 June 2021	Variance	Variance
	£m	£m	£m	£m	£m	£m	£m	%
Net interest income	2,030	301	1,207	(133)	3,405	2,957	448	15%
Non-interest income	194	142	559	1,371	2,266	1,489	777	52%
Total income	2,224	443	1,766	1,238	5,671	4,446	1,225	28%
Operating expenses	(1,015)	(283)	(958)	(774)	(3,030)	(2,852)	(178)	6%
Profit before impairment (losses)/releases	1,209	160	808	464	2,641	1,594	1,047	66%
Impairment (losses)/releases	(32)	12	37	1	18	438	(420)	(96%)
Operating profit	1,177	172	845	465	2,659	2,032	627	31%
Tax charge					(767)	(333)	(434)	130%
Profit for the period					1,892	1,699	193	11%

Attributable to:		
Ordinary shareholders	1,833	1,639
Paid-in equity holders	56	58
Non-controlling interests	3	2
	1,892	1,699

Key metrics and ratios	Half year ended 30 June 2022	Half year ended 30 June 2021
Cost:income ratio	53.4%	64.1%
Loan impairment rate (1)	(1bp)	(31bps)

	As at 30 June 2022	As at 31 December 2021
	£bn	£bn
Total assets	437.1	434.6
Third party assets (2)	432.9	431.0
Loans to customers - amortised cost	294.7	287.0
Customer deposits	339.4	329.4
Loan:deposit ratio (3)	83%	83%
CET1 ratio	11.6%	16.1%
Leverage ratio	4.3%	3.8%
Risk weighted assets (RWAs)	106.2	86.2

(1) Loan impairment rate is the annualised loan impairment charge divided by gross customer loans.
(2) Total assets less amounts due from holding companies and fellow subsidiaries.
(3) Total loans to banks - amortised cost and loans to customers – amortised cost divided by total bank deposits and customer deposits.

Total income increased by £1,225 million, or 28%, to £5,671 million compared with £4,446 million in H1 2021.

Net interest income increased by £448 million to £3,405 million, compared with £2,957 million in H1 2021, reflecting the beneficial impact of recent base rate increases and volume growth.

Non-interest income increased by £777 million to £2,266 million, compared with £1,489 million in H1 2021.
- Net fees and commissions income increased by £72 million, or 10%, to £788 million due to higher transactional-related fee income.
- Other operating income increased by £705 million to £1,478 million, compared with £773 million in H1 2021, reflecting:
  - £546 million higher income from hedging activities, reflecting interest rate rises across all currencies;
  - a £97 million loss incurred in H1 2021 in relation to the partial redemption of debt instruments, partially offset by fair value movements in the period;
  - an increase of £76 million in income from costs recharged to other NatWest Group entities.

Operating expenses increased by £178 million, or 6%, to £3,030 million, compared with £2,852 million in H1 2021.
- Staff costs savings achieved from a reduced headcount have been offset by additional costs in respect of investment programmes in other NatWest Group entities subsequently recharged and reported in income.
- Premises and equipment costs increased by £53 million due to further investments in technology.
- Other administrative expenses have increased by £134 million primarily due to additional conduct and remediation charges of £77 million, along with additional costs resulting from our continued investment in our data capabilities.

Financial performance summary continued

A net impairment release of £18 million in H1 2022 compared with a release of £438 million in H1 2021, reflecting further non-default portfolio releases and continued low levels of realised losses seen across our portfolio, however we recognise the continued uncertainty in the economic outlook. Total impairment provisions decreased by £0.1 billion to £2.3 billion in H1 2022, which resulted in a reduction in the ECL provision coverage ratio from 0.85% at 31 December 2021 to 0.78%.

Customer lending and deposits

Customer lending increased by £7.7 billion to £294.7 billion, compared with £287.0 billion, driven by:
- £7.1 billion mortgage growth as a result of strong gross new lending, partially offset by redemptions; and
- £2.0 billion net increase in commercial lending due to increased facility utilisation and strong new business performance;
- Partially offset by decreases, including £1.0 billion Treasury repo activity.

Customer deposits increased by £10.0 billion to £339.4 billion primarily reflecting:
- £5.3 billion increase in demand and savings deposits, as customers continued to build and retain liquidity in light of economic uncertainty; and
- £4.7 billion increase in repos.

Other balance sheet movements

- Derivative assets increased by £1.0 billion and derivative liabilities decreased by £2.0 billion driven by interest rate changes and sterling FX rate appreciation.
- Other financial assets decreased by £8.1 billion to £20.9 billion, primarily reflecting bond maturities of £6.5 billion and reduced fair value of the remaining bond portfolio due to changes in interest and FX rates of £1.6 billion.
- Bank deposits decreased by £1.9 billion to £21.0 billion mainly driven by a £3.0 billion decrease in repo balances partly offset by increased customer balances.
- Amounts due to holding companies and fellow subsidiaries decreased by £1.7 billion to £43.5 billion due to debt maturities.
- Other financial liabilities decreased by £1.5 billion primarily due to changes in interest rates in short term funding.
- Owners' equity remained broadly stable as profit for the period was offset by dividend paid and decreases in equity reserves.

Business performance summary

Retail Banking

Operating profit was £1,177 million, compared with £985 million in H1 2021.
- Net interest income increased by £323 million to £2,030 million compared with £1,707 million in H1 2021, reflecting the beneficial impact of recent base rate increases, combined with strong growth in mortgage balances.
- Non-interest income increased by £41 million to £194 million, compared with £153 million in H1 2021, primarily reflecting higher transactional-related fee income.
- Operating expenses increased by £100 million to £1,015 million compared with £915 million in H1 2021, primarily driven by higher investment spend and additional conduct charges. This was partly offset by a reduction in staff costs, as a result of continued customer digital adoption and automation of end-to-end customer journeys.
- Impairment losses of £32 million in H1 2022 continue to reflect a low level of Stage 3 defaults, partly offset by provision releases in Stage 2.
- Net loans to customers - amortised cost increased by £7.2 billion to £171.7 billion in H1 2022, reflecting continued mortgage growth of £6.7 billion, with gross new mortgage lending of £18.3 billion. Cards balances increased by £0.3 billion and Personal advances increased by £0.2 billion in H1 2022 from improving customer demand.
- Customer deposits increased by £1.3 billion to £153.4 billion in H1 2022, reflecting slower growth largely from higher customer spend levels.

Private Banking

Operating profit was £172 million compared with £134 million in H1 2021.
- Net interest income increased by £78 million to £301 million, compared with £223 million in H1 2021, reflecting strong balance growth, combined with higher deposit income supported by recent interest rate rises.
- Non-interest income increased by £17 million to £142 million due to higher card and payment-related fee income as transactional volumes continued to improve.
- Operating expenses increased by £43 million to £283 million principally due to continued investment in people and technology to enhance our AUMA growth propositions and increased costs for financial crime and fraud.
- A net impairment release of £12 million in H1 2022 reflects the continued low levels of credit risk in the portfolio.
- Net loans to customers increased by £0.5 billion to £18.2 billion in H1 2022 due to continued strong mortgage lending growth.
- Customer deposits increased by £2.2 billion to £39.4 billion in H1 2022 as customers continue to build and retain liquidity.

Financial review

Business performance summary continued

Commercial & Institutional

Operating profit was £845 million, compared with £1,071 million in H1 2021.

- Net interest income increased by £110 million to £1,207 million, compared with £1,097 million in H1 2021, primarily driven by increased interest rates and volume growth.
- Non-interest income increased by £58 million to £559 million, primarily reflecting improved card payment fees and the beneficial impact of recent interest rate rises on hedging activities.
- Operating expenses increased by £58 million to £958 million, reflecting continued investment in our data capabilities, partly offset by the non-repeat of restructuring costs in H1 2021.
- A net impairment release of £37 million in H1 2022 compared with an impairment release of £373 million in H1 2021, reflecting a continued low level of Stage 3 defaults.
- Net loans to customers increased by £0.9 billion to £78.0 billion, with growth in facility utilisation, partly offset by continued UK Government financial support scheme repayments.
- Customer deposits increased by £1.2 billion to £125.7 billion as customers continued to build and retain liquidity.

Central items & other

Operating profit was £465 million in H1 2022 compared with an operating loss of £158 million in H1 2021.

- Total income increased by £598 million primarily due to higher income from hedging activities, reflecting interest rate rises across all currencies and non-repeat of £97 million loss incurred on the partial redemption of debt in H1 2021.
- Operating expenses decreased by £23 million to £774 million, primarily due to lower restructuring costs. £733 million of costs were recovered through service recharges in non-interest income.

Capital and leverage ratios

The table below sets out the key capital and leverage ratios on a Prudential Regulation Authority (PRA) transitional basis.

	30 June 2022	31 December 2021
Capital adequacy ratios	**%**	%
CET1 (1)	**11.6**	16.1
Tier 1	**13.7**	18.6
Total	**16.5**	22.0
Capital	**£m**	£m
CET1 (1)	**12,335**	13,924
Tier 1	**14,591**	16,039
Total	**17,503**	18,945
Risk-weighted assets		
Credit risk	**92,366**	72,716
Counterparty credit risk	**839**	574
Market risk	**14**	53
Operational risk	**12,992**	12,874
Total RWAs	**106,211**	86,217
Leverage		
Tier 1 capital (£m)	**14,591**	16,039
Leverage exposure (£m) (2)	**340,086**	426,681
Leverage ratio (%) (1,3)	**4.3**	3.8

(1) Includes an IFRS 9 transitional adjustment of £0.2 billion (31 December 2021 - £0.4 billion). Excluding this adjustment, the CET1 ratio would be 11.4% (31 December 2021 – 15.7% and the leverage ratio would be 4.2% (31 December 2021 – 3.7%).

(2) Leverage exposure is broadly aligned to the accounting value of on and off-balance sheet exposures albeit subject to specific adjustments for derivatives, securities financing positions and off-balance sheet exposures.

(3) The leverage ratio for June 2022 has been calculated in accordance with the Leverage Ratio (CRR) part of the PRA rulebook. The comparatives reflect the previous CRR framework which was applicable prior to 1 January 2022. The leverage ratio for 30 June 2022 in the above table reflects the UK leverage ratio for NWB Plc, as per the new framework. As at 31 December 2021, the UK leverage ratio was 4.8%, which was calculated under the prior year's PRA UK leverage methodology.

- The CET1 ratio decreased to 11.6% from 16.1%. This is due to a £1.6 billion decrease in CET1 capital and a £20.0 billion increase in RWAs. The CET1 decrease reflects a £2.3 billion foreseeable dividend, a decrease of £0.2 billion in the IFRS 9 transitional adjustment, the removal of adjustment for prudential amortisation on software development costs of £0.4 billion and other reserve movements in the period. This is partially offset by the attributable profit in the period.
- NWB Plc issued £0.5 billion internal AT1 in May 2022. This was partially offset by the partial redemption of an internal USD AT1 instrument in June 2022 (£0.4 billion).
- Total RWAs increased by £20.0 billion during the period primarily reflecting an increase in credit risk due to model adjustments applied as a result of new regulation applicable to IRB models from 1 January 2022, in addition to increased exposures within Commercial & Institutional and Retail Banking. This was partially offset by improved risk metrics in Commercial & Institutional and Retail Banking.

Condensed consolidated income statement for the period ended 30 June 2022 (unaudited)

	Half year ended	
	30 June 2022 £m	30 June 2021 £m
Interest receivable	3,868	3,326
Interest payable	(463)	(369)
Net interest income	3,405	2,957
Fees and commissions receivable	1,037	895
Fees and commissions payable	(249)	(179)
Other operating income	1,478	773
Non-interest income	2,266	1,489
Total income	5,671	4,446
Staff costs	(1,436)	(1,433)
Premises and equipment	(487)	(434)
Other administrative expenses	(731)	(597)
Depreciation and amortisation	(376)	(388)
Operating expenses	(3,030)	(2,852)
Profit before impairment releases	2,641	1,594
Impairment releases	18	438
Operating profit before tax	2,659	2,032
Tax charge	(767)	(333)
Profit for the period	1,892	1,699
Attributable to:		
Ordinary shareholders	1,833	1,639
Paid-in equity holders	56	58
Non-controlling interests	3	2
	1,892	1,699

Condensed consolidated statement of comprehensive income for the period ended 30 June 2022 (unaudited)

	Half year ended	
	30 June 2022 £m	30 June 2021 £m
Profit for the period	1,892	1,699
Items that do not qualify for reclassification		
Remeasurement of retirement benefit schemes (1)	(536)	(518)
Tax	135	153
	(401)	(365)
Items that do qualify for reclassification		
FVOCI financial assets	(373)	(124)
Cash flow hedges	(308)	127
Currency translation	2	(12)
Tax	205	(10)
	(474)	(19)
Other comprehensive loss after tax	(875)	(384)
Total comprehensive income for the period	1,017	1,315
Attributable to:		
Ordinary shareholders	958	1,254
Paid-in equity holders	56	58
Non-controlling interests	3	3
	1,017	1,315

(1) Following the purchase of ordinary shares from UKGI in March 2021, NatWest Group contributed £500 million to its main pension scheme in line with the memorandum of understanding announced on 17 April 2018. After tax relief, this contribution reduced total equity by £365 million.

Condensed consolidated balance sheet as at 30 June 2022 (unaudited)

	30 June 2022 £m	31 December 2021 £m
Assets		
Cash and balances at central banks	101,398	101,213
Derivatives	3,507	2,460
Loans to banks - amortised cost	5,133	4,182
Loans to customers - amortised cost	294,713	286,971
Amounts due from holding companies and fellow subsidiaries	4,156	3,519
Other financial assets	20,931	29,031
Other assets	7,212	7,187
Total assets	437,050	434,563
Liabilities		
Bank deposits	20,967	22,831
Customer deposits	339,420	329,440
Amounts due to holding companies and fellow subsidiaries	43,477	45,136
Derivatives	2,112	4,119
Other financial liabilities	5,729	7,251
Subordinated liabilities	215	211
Notes in circulation	856	904
Other liabilities	3,466	3,934
Total liabilities	416,242	413,826
Owners' equity	20,795	20,727
Non-controlling interests	13	10
Total equity	20,808	20,737
Total liabilities and equity	437,050	434,563

Condensed consolidated statement of changes in equity for the period ended 30 June 2022
(unaudited)

	Half year ended	
	30 June 2022 £m	30 June 2021 £m
Called up share capital - at beginning and end of period	**1,678**	1,678
Paid-in equity - at beginning of period	**2,377**	2,370
Redeemed	**(359)**	-
Securities issued (1)	**500**	-
At end of period	**2,518**	2,370
Share premium - at beginning and end of period	**2,225**	2,225
Merger reserve - at beginning of period	**14**	9
Amortisation	**33**	2
At end of period	**47**	11
FVOCI reserve - at beginning of period	**192**	280
Unrealised losses	**(337)**	(99)
Realised gains	**(36)**	(25)
Tax	**119**	19
At end of period	**(62)**	175
Cash flow hedging reserve - at beginning of period	**(1)**	(133)
Amount recognised in equity	**(223)**	65
Amount transferred from equity to earnings	**(85)**	62
Tax	**86**	(29)
At end of period	**(223)**	(35)
Foreign exchange reserve - at beginning of period	**(85)**	(63)
Retranslation of net assets	**15**	(24)
Foreign currency (losses)/gains on hedges of net assets	**(13)**	11
At end of period	**(83)**	(76)
Capital redemption reserve - at beginning of period	**820**	796
Redemption of preference shares	**-**	24
At end of period	**820**	820
Retained earnings - at beginning of period	**13,507**	12,720
Profit attributable to ordinary shareholders and other equity owners	**1,889**	1,697
Paid-in equity dividends paid	**(56)**	(58)
Ordinary dividends paid	**(993)**	-
Redemption of paid-in equity (2)	**(29)**	-
Remeasurement of retirement benefit schemes (3)		
- gross	**(536)**	(518)
- tax	**135**	153
Amortisation of merger reserve	**(33)**	(2)
Redemption of preference shares	**-**	(24)
Share-based payments	**(15)**	(19)
Shares issued under employee share schemes	**6**	-
At end of period	**13,875**	13,949
Owners' equity at end of period	**20,795**	21,117
Non-controlling interests - at beginning of period	**10**	10
Currency translation adjustments and other movements	**-**	1
Profit attributable to non-controlling interests	**3**	2
At end of period	**13**	13
Total equity at end of period	**20,808**	21,130
Attributable to:		
Ordinary shareholders	**18,277**	18,747
Paid-in equity holders	**2,518**	2,370
Non-controlling interests	**13**	13
	20,808	21,130

(1) In June 2022, AT1 capital notes totalling £500 million less fees were issued.
(2) The redemption of paid in equity is made up of FX unlocking and loss on redemption.
(3) Following the purchase by NatWest Group plc of ordinary shares from UKGI in Q1 2022, NatWest Group contributed £500 million (2021 - £500 million) to its main pension scheme in line with the memorandum of understanding announced on 17 April 2018. After tax relief, this contribution reduced total equity by £365 million (2021 - £365 million).

Condensed consolidated cash flow statement for the period ended 30 June 2022 (unaudited)

	Half year ended	
	30 June 2022 £m	30 June 2021 £m
Operating activities		
Operating profit before tax	**2,659**	2,032
Adjustments for non-cash items	**529**	2,251
Net cash flows from trading activities	**3,188**	4,283
Changes in operating assets and liabilities	**(9,673)**	12,952
Net cash flows from operating activities before tax	**(6,485)**	17,235
Income taxes paid	**(515)**	(220)
Net cash flows from operating activities	**(7,000)**	17,015
Net cash flows from investing activities	**6,474**	(1,444)
Net cash flows from financing activities	**(254)**	1,388
Effects of exchange rate changes on cash and cash equivalents	**729**	(662)
Net (decrease)/increase in cash and cash equivalents	**(51)**	16,297
Cash and cash equivalents at beginning of period	**106,645**	68,048
Cash and cash equivalents at end of period	**106,594**	84,345

Notes

1. Presentation of condensed consolidated financial statements

The condensed consolidated financial statements are set out on pages 6 to 40. The directors have prepared these on a going concern basis after assessing the principal risks, forecasts, projections and other relevant evidence over the twelve months from the date they are approved and in accordance with UK adopted IAS 34 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the UK's Financial Conduct Authority. They should be read in conjunction with NatWest Bank Plc's 2021 Annual Report and Accounts.

2. Accounting policies

NatWest Bank Group's principal accounting policies are as set out on pages 100 to 105 of NatWest Bank Plc's 2021 Annual Report and Accounts. Amendments to IFRS effective from 1 January 2022 had no material effect on the condensed consolidated financial statements.

Critical accounting policies and key sources of estimation uncertainty

The judgments and assumptions that are considered to be the most important to the portrayal of NatWest Bank Group's financial condition are those relating to deferred tax, fair value of financial instruments, loan impairment provisions, and provisions for liabilities and charges. These critical accounting policies and judgments are noted on page 104 of NatWest Bank Plc's 2021 Annual Report and Accounts. Management's consideration of uncertainty is outlined in the relevant sections of NatWest Bank Plc's 2021 Annual Report and Accounts, including the ECL estimate for the period in the Risk and capital management section contained in NatWest Bank Plc's 2021 Annual Report and Accounts.

Information used for significant estimates

Key financial estimates are based on management's latest five-year revenue and cost forecasts. Measurement of deferred tax and expected credit losses are highly sensitive to reasonably possible changes in those anticipated conditions. Changes in judgments and assumptions could result in a material adjustment to those estimates in future reporting periods. (Refer to the Summary Risk Factors on page 42 which should be read in conjunction with the Risk factors included in the NatWest Bank Plc's 2021 Annual Report and Accounts).

3. Operating expenses

	Half year ended	
	30 June 2022 £m	30 June 2021 £m
Salaries and other staff costs	**1,063**	1,077
Temporary and contract costs	**108**	97
Social security costs	**129**	119
Pension costs	**136**	140
- defined benefit schemes	**72**	85
- defined contribution schemes	**64**	55
Staff costs	**1,436**	1,433
Premises and equipment	**487**	434
Depreciation and amortisation	**376**	388
Other administrative expenses	**731**	597
Administrative expenses	**1,594**	1,419
Operating expenses	**3,030**	2,852

Notes

4. Segmental analysis

The business is organised into the following reportable segments: Retail Banking, Private Banking, Commercial & Institutional and Central items & other.

Analysis of operating profit/(loss)

Half year ended 30 June 2022	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
Net interest income	2,030	301	1,207	(133)	3,405
Net fees and commissions	174	127	479	8	788
Other non-interest income	20	15	80	1,363	1,478
Total income	2,224	443	1,766	1,238	5,671
Depreciation and amortisation	-	-	(67)	(309)	(376)
Other operating expenses	(1,015)	(283)	(891)	(465)	(2,654)
Impairment (losses)/releases	(32)	12	37	1	18
Operating profit	1,177	172	845	465	2,659
Half year ended 30 June 2021					
Net interest income	1,707	223	1,097	(70)	2,957
Net fees and commissions	137	114	468	(3)	716
Other non-interest income	16	11	33	713	773
Total income	1,860	348	1,598	640	4,446
Depreciation and amortisation	-	-	(72)	(316)	(388)
Other operating expenses	(915)	(240)	(828)	(481)	(2,464)
Impairment releases/(losses)	40	26	373	(1)	438
Operating profit/(loss)	985	134	1,071	(158)	2,032

Total revenue (1)

Half year ended 30 June 2022	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
External	2,400	395	1,645	1,943	6,383
Inter-segmental	14	119	72	(205)	-
Total	2,414	514	1,717	1,738	6,383
Half year ended 30 June 2021					
External	2,273	340	1,504	877	4,994
Inter-segmental	56	76	73	(205)	-
Total	2,329	416	1,577	672	4,994

(1) Total revenue comprises interest receivable, fees and commissions receivable and other operating income.

Notes

4. Segmental analysis continued

Analysis of net fees and commissions

Half year ended 30 June 2022	**Retail Banking £m**	**Private Banking £m**	**Commercial & Institutional £m**	**Central items & other £m**	**Total £m**
Fees and commissions receivable					
- Payment services	**123**	**16**	**235**	**-**	**374**
- Credit and debit card fees	**163**	**8**	**73**	**-**	**244**
- Lending and financing	**7**	**4**	**212**	**-**	**223**
- Brokerage	**21**	**3**	**-**	**-**	**24**
- Investment management, trustee and fiduciary services	**1**	**111**	**-**	**-**	**112**
- Other	**-**	**-**	**75**	**(15)**	**60**
Total	**315**	**142**	**595**	**(15)**	**1,037**
Fees and commissions payable	**(141)**	**(15)**	**(116)**	**23**	**(249)**
Net fees and commissions	**174**	**127**	**479**	**8**	**788**
Half year ended 30 June 2021					
Fees and commissions receivable					
- Payment services	117	15	197	-	329
- Credit and debit card fees	120	4	52	-	176
- Lending and financing	5	4	191	-	200
- Brokerage	25	3	-	-	28
- Investment management, trustee and fiduciary services	1	103	-	-	104
- Other	-	17	84	(43)	58
Total	268	146	524	(43)	895
Fees and commissions payable	(131)	(32)	(56)	40	(179)
Net fees and commissions	137	114	468	(3)	716

Total assets and liabilities

30 June 2022	**Retail Banking £m**	**Private Banking £m**	**Commercial & Institutional £m**	**Central items & other £m**	**Total £m**
Assets	**174,198**	**19,072**	**81,925**	**161,855**	**437,050**
Liabilities	**154,905**	**39,499**	**135,426**	**86,412**	**416,242**
31 December 2021					
Assets	168,228	18,509	83,347	164,479	434,563
Liabilities	153,653	37,219	133,156	89,798	413,826

Notes

5. Tax

The actual tax charge differs from the expected tax charge computed by applying the standard rate of UK corporation tax of 19% (2021 - 19%) as analysed below:

	Half year ended	
	30 June 2022 £m	30 June 2021 £m
Profit before tax	**2,659**	2,032
Expected tax charge	**(505)**	(386)
Losses and temporary differences in period where no deferred tax assets recognised	**(1)**	-
Foreign profits taxed at other rates	**(2)**	(4)
Items not allowed for tax:		
- UK bank levy	**(6)**	(7)
- regulatory and legal actions	**(9)**	(5)
- other disallowable items	**(7)**	(10)
Non-taxable items	**6**	1
Decrease in the carrying value of deferred tax assets in respect of UK losses	**(13)**	-
Banking surcharge	**(199)**	(145)
Tax on paid-in equity	**11**	17
UK tax rate change impact	**(79)**	211
Adjustments in respect of prior periods	**37**	(5)
Actual tax charge	**(767)**	(333)

At 30 June 2022, NWB Group has recognised a deferred tax asset of £1,238 million (31 December 2021 - £1,268 million) and a deferred tax liability of £143 million (31 December 2021 - £209 million). These amounts include deferred tax assets recognised in respect of trading losses of £518 million (31 December 2021 - £608 million). NWB Group has considered the carrying value of these assets as at 30 June 2022 and concluded that they are recoverable.

It was announced in the UK Government’s Budget on 27 October 2021 that the UK banking surcharge will decrease from 8% to 3% from 1 April 2023. This legislative change was substantively enacted on 2 February 2022. NWB Group’s closing deferred tax assets and liabilities have therefore been recalculated taking into account this change of rate and the applicable period the deferred tax assets and liabilities are expected to crystallise.

Notes

6. Financial instruments - classification

The following tables analyse financial assets and liabilities in accordance with the categories of financial instruments in IFRS 9.

Assets	MFVTPL £m	FVOCI £m	Amortised cost £m	Other assets £m	Total £m
Cash and balances at central banks			**101,398**		**101,398**
Derivatives (1)	**3,507**				**3,507**
Loans to banks - amortised cost			**5,133**		**5,133**
Loans to customers - amortised cost (2)			**294,713**		**294,713**
Amounts due from holding companies and fellow subsidiaries	**19**	**-**	**3,317**	**820**	**4,156**
Other financial assets	**350**	**16,867**	**3,714**		**20,931**
Other assets				**7,212**	**7,212**
30 June 2022	**3,876**	**16,867**	**408,275**	**8,032**	**437,050**
Cash and balances at central banks			101,213		101,213
Derivatives (1)	2,460				2,460
Loans to banks - amortised cost			4,182		4,182
Loans to customers - amortised cost (2)			286,971		286,971
Amounts due from holding companies and fellow subsidiaries	348	-	2,554	617	3,519
Other financial assets	226	26,148	2,657		29,031
Other assets				7,187	7,187
31 December 2021	3,034	26,148	397,577	7,804	434,563

Liabilities	Held-for-trading £m	Amortised cost £m	Other liabilities £m	Total £m
Bank deposits		**20,967**		**20,967**
Customer deposits		**339,420**		**339,420**
Amounts due to holding companies and fellow subsidiaries	**17**	**43,333**	**127**	**43,477**
Derivatives (1)	**2,112**			**2,112**
Other financial liabilities	**281**	**5,448**		**5,729**
Subordinated liabilities		**215**		**215**
Notes in circulation		**856**		**856**
Other liabilities (3)		**1,011**	**2,455**	**3,466**
30 June 2022	**2,410**	**411,250**	**2,582**	**416,242**
Bank deposits		22,831		22,831
Customer deposits		329,440		329,440
Amounts due to holding companies and fellow subsidiaries	-	45,034	102	45,136
Derivatives (1)	4,119			4,119
Other financial liabilities	99	7,152		7,251
Subordinated liabilities		211		211
Notes in circulation		904		904
Other liabilities (3)		1,071	2,863	3,934
31 December 2021	4,218	406,643	2,965	413,826

(1) Includes net hedging derivative assets of £405 million (31 December 2021 – £113 million) and net hedging derivative liabilities of £200 million (31 December 2021 - £71 million).
(2) Includes finance lease receivables of £8,031 million (31 December 2021 - £8,434 million).
(3) Includes lease liabilities of £954 million (31 December 2021 - £1,008 million) held at amortised cost.

Notes

6. Financial instruments – classification continued

NWB Group's financial assets and liabilities include amounts due from/to holding companies and fellow subsidiaries as below:

	30 June 2022			31 December 2021		
	Holding companies £m	Fellow subsidiaries £m	Total £m	Holding companies £m	Fellow subsidiaries £m	Total £m
Assets						
Loans to banks - amortised cost	-	3,305	3,305	-	2,542	2,542
Loans to customers - amortised cost	-	12	12	-	12	12
Other financial assets	-	19	19	-	348	348
Other assets	21	799	820	14	603	617
Amounts due from holding companies and fellow subsidiaries	21	4,135	4,156	14	3,505	3,519
Derivatives (1)	251	2,005	2,256	47	910	957
Liabilities						
Bank deposits	-	26,926	26,926	-	25,216	25,216
Customer deposits	6,881	20	6,901	11,029	28	11,057
Subordinated liabilities	3,012	-	3,012	3,074	-	3,074
MREL instruments issued to NatWest Holdings Ltd	6,494	-	6,494	5,687	-	5,687
Other financial liabilities	-	17	17	-	-	-
Other liabilities	8	119	127	-	102	102
Amounts due to holding companies and fellow subsidiaries	16,395	27,082	43,477	19,790	25,346	45,136
Derivatives (1)	290	640	930	127	695	822

(1) Intercompany derivatives are included within derivative classification on the balance sheet.

Notes

6. Financial instruments - valuation

Disclosures relating to the control environment, valuation techniques and related aspects pertaining to financial instruments measured at fair value are included in NWB Group's 2021 Annual Report and Accounts. Valuation, sensitivity methodologies and inputs at 30 June 2022 are consistent with those described in Note 10 to NWB Group's 2021 Annual Report and Accounts.

Fair value hierarchy

The table below shows the assets and liabilities held by NWB Group split by fair value hierarchy level. Level 1 are considered the most liquid instruments, and level 3 the most illiquid, valued using expert judgment and hence carry the most significant price uncertainty.

	30 June 2022				31 December 2021			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets								
Derivatives	-	3,497	10	3,507	-	2,459	1	2,460
Amounts due from holding companies and fellow subsidiaries	-	19	-	19	-	348	-	348
Other financial assets								
Securities	11,420	5,445	2	16,867	20,229	5,718	2	25,949
Loans - MFVTPL	-	303	47	350	-	165	50	215
Loans - FVOCI	-	-	-	-	-	210	-	210
Total financial assets held at fair value	11,420	9,264	59	20,743	20,229	8,900	53	29,182
As a % of total value assets	55%	45%	0%		69%	31%	0%	
Liabilities								
Amounts due to holding companies and fellow subsidiaries	-	17	-	17	-	-	-	-
Derivatives	-	2,073	39	2,112	-	3,980	139	4,119
Other financial liabilities								
Deposits - HFT	-	281	-	281	-	99	-	99
Total financial liabilities held at fair value	-	2,371	39	2,410	-	4,079	139	4,218
As a % of total fair value liabilities	-	98%	2%		-	97%	3%	

(1) Level 1 – Instruments valued using unadjusted quoted prices in active and liquid markets, for identical financial instruments. Examples include government bonds, listed equity shares and certain exchange-traded derivatives.
Level 2 - Instruments valued using valuation techniques that have observable inputs. Observable inputs are those that are readily available with limited adjustments required. Examples include most government agency securities, investment-grade corporate bonds, certain mortgage products - including CLOs, most bank loans, repos and reverse repos, state and municipal obligations, most notes issued, certain money market securities, loan commitments and most OTC derivatives.
Level 3 - Instruments valued using a valuation technique where at least one input which could have a significant effect on the instrument's valuation, is not based on observable market data. Examples include non-derivative instruments which trade infrequently, certain syndicated and commercial mortgage loans, private equity, and derivatives with unobservable model inputs.

(2) Transfers between levels are deemed to have occurred at the beginning of the quarter in which the instruments were transferred.

6. Financial instruments – valuation continued

Fair value of financial instruments measured at amortised cost on the balance sheet

The following table shows the carrying value and fair value of financial instruments carried at amortised cost on the balance sheet.

30 June 2022	Items where fair value approximates carrying value £bn	Carrying value £bn	Fair value £bn	Fair value hierarchy level: Level 1 £bn	Level 2 £bn	Level 3 £bn
Financial assets						
Cash and balances at central banks	101.4					
Loans to banks		5.1	5.1	-	4.4	0.7
Loans to customers		294.7	288.1	-	26.7	261.4
Amounts due from holding companies and fellow subsidiaries		3.3	3.3	-	0.9	2.4
Other financial assets - securities		3.7	3.6	1.2	2.0	0.4
31 December 2021						
Financial assets						
Cash and balances at central banks	101.2					
Loans to banks		4.1	4.0	-	3.5	0.5
Loans to customers		287.0	283.0	-	27.6	255.4
Amounts due from holding companies and fellow subsidiaries		2.5	2.5	-	0.3	2.2
Other financial assets - securities		2.7	2.7	1.6	0.7	0.4
30 June 2022						
Financial liabilities						
Bank deposits	4.7	16.3	15.3	-	15.1	0.2
Customer deposits	307.5	31.9	31.9	-	21.5	10.4
Amounts due to holding companies and fellow subsidiaries	3.2	40.1	39.6	-	11.7	27.9
Other financial liabilities						
Debt securities in issue		5.2	5.3	-	2.9	2.4
Settlement balances	0.2					
Subordinated liabilities		0.2	0.3	-	0.3	-
Notes in circulation	0.9					
31 December 2021						
Financial liabilities						
Bank deposits	3.7	19.1	18.8	-	18.8	-
Customer deposits	305.4	24.1	24.3	-	17.5	6.9
Amounts due to holding companies and fellow subsidiaries	2.8	42.2	42.3	-	9.8	32.5
Other financial liabilities						
Debt securities in issue		7.2	7.2	-	3.0	4.2
Settlement balances	-					
Subordinated liabilities		0.2	0.3	-	0.3	-
Notes in circulation	0.9					

Short-term financial instruments

For certain short-term financial instruments: cash and balances at central banks, items in the course of collection from other banks, settlement balances, items in the course of transmission to other banks, customer demand deposits and notes in circulation, carrying value is deemed a reasonable approximation of fair value.

Loans to banks and customers

In estimating the fair value of net loans to customers and banks measured at amortised cost, NWB Group's loans are segregated into appropriate portfolios reflecting the characteristics of the constituent loans. Two principal methods are used to estimate fair value; contractual cash flows and expected cash flows.

Debt securities and subordinated liabilities

Most debt securities are valued using quoted prices in active markets or from quoted prices of similar financial instruments in active markets. For the remaining population, fair values are determined using market standard valuation techniques, such as discounted cash flows.

Bank and customer deposits

Fair value of deposits are estimated using discounted cash flow valuation techniques.

Notes

7. Loan impairment provisions

Economic loss drivers

Introduction

The portfolio segmentation and selection of economic loss drivers for IFRS 9 follow closely the approach used in stress testing. To enable robust modelling the forecasting models for each portfolio segment (defined by product or asset class and where relevant, industry sector and region) are based on a selected, small number of economic factors, (typically three to four) that best explain the temporal variations in portfolio loss rates. The process to select economic loss drivers involves empirical analysis and expert judgment.

The most material economic loss drivers are shown in the table below.

Portfolio	Economic loss drivers
UK retail mortgages	UK unemployment rate, sterling swap rate, UK house price index, UK household debt to income
UK retail unsecured	UK unemployment rate, sterling swap rate, UK household debt to income
UK large corporates	World GDP, UK unemployment rate, sterling swap rate, stock price index
UK commercial	UK GDP, UK unemployment rate, sterling swap rate
UK commercial real estate	UK GDP, UK commercial property price index, sterling swap rate, stock price index

(1) This is not an exhaustive list of economic loss drivers but shows the most material drivers for the most significant portfolios.

Economic scenarios

At 30 June 2022, the range of anticipated future economic conditions was defined by a set of four internally developed scenarios and their respective probabilities. In addition to the base case, they comprised upside, downside and extreme downside scenarios. The scenarios primarily reflected a range of outcomes associated with the most prominent risks facing the economy, and the associated effects on labour and asset markets.

The four economic scenarios are translated into forward-looking projections of credit cycle indices (CCIs) using a set of econometric models. Subsequently the CCI projections for the individual scenarios are averaged into a single central CCI projection according to the given scenario probabilities. The central CCI projection is then overlaid with an additional mean reversion assumption i.e., after reaching their worst forecast position the CCIs start to gradually revert to their long-run average of zero.

Upside – This scenario assumes a very strong recovery through 2022 as consumers dip into excess savings built up since amidst COVID-19. The labour market remains resilient, with the unemployment rate falling substantially below pre-COVID-19 levels. Inflation is marginally higher than the base case but eventually retreats close to the target without substantial tightening and with no major effect on growth. The housing market shows a strong performance.

Base case – After a strong recovery in 2021, growth moderates in 2022 as real incomes decline and consumer confidence falls. The unemployment rate decreases initially but subsequently increases above pre-COVID-19 levels, although remains low by historical standards. Inflation remains elevated at close to current levels through to early 2023 before retreating. Interest rates are raised to 2% to control price pressures. There is a gradual cooling in the housing market, but activity remains firm. As inflation retreats, economic growth returns to its pre-COVID-19 pace over the course of 2023, remaining steady through the forecast period.

Downside – This scenario assumes that inflation accelerates to 15%, triggered by further escalation in geopolitical tensions and an associated rise in energy prices. This undermines the recovery, harming business and consumer confidence and pushing the economy into recession. Unemployment rate rises above the levels seen during COVID-19 and there is a modest decline in house prices. Inflation subsequently normalises, paving the way for cuts to interest rates and recovery.

Extreme downside – The trigger for the extreme downside is similar to the downside scenario. However, in this scenario, inflation remains more persistent, necessitating a significant degree of rate tightening. This tighter policy and fall in real income leads to a deep recession. There is widespread job shedding in the labour market while asset prices see deep corrections, with housing market falls higher than those seen during previous episodes. The recovery is tepid throughout the five-year period, meaning only a gradual decline in joblessness.

For June 2022, the four scenarios were deemed appropriate in capturing the uncertainty in economic forecasts and the non-linearity in outcomes under different scenarios. These four scenarios were developed to provide sufficient coverage across potential rises in unemployment, inflation and asset price falls around which there are pronounced levels of uncertainty.

The tables below provide details of the key economic loss drivers under the four scenarios.

The main macroeconomic variables for each of the four scenarios used for expected credit loss (ECL) modelling are set out in the main macroeconomic variables table below. The compound annual growth rate (CAGR) for GDP is shown. It also shows the five-year average for unemployment and the Bank of England base rate. The house price index and commercial real estate figures show the total change in each asset over five years.

Notes

7. Loan impairment provisions continued

Main macroeconomic variables

Five-year summary	30 June 2022 Upside %	Base case %	Downside %	Extreme downside %	31 December 2021 Upside %	Base case %	Downside %	Extreme downside %
UK								
GDP - CAGR	**1.7**	**1.1**	**0.8**	**(0.1)**	2.4	1.7	1.4	0.6
Unemployment - average	**3.3**	**4.0**	**4.5**	**6.3**	3.5	4.2	4.8	6.7
House price index - total change	**24.4**	**13.7**	**(0.9)**	**(10.5)**	22.7	12.1	4.3	(5.3)
Commercial real estate price - total change	**7.5**	**(2.6)**	**(6.8)**	**(14.5)**	18.2	7.2	5.5	(6.4)
Bank of England base rate - average	**1.5**	**1.8**	**0.6**	**2.7**	1.5	0.8	0.7	(0.5)
Consumer price index - CAGR	**2.7**	**2.9**	**3.9**	**7.2**	2.7	2.5	3.1	1.5
World GDP - CAGR	**3.8**	**3.4**	**2.0**	**1.0**	3.5	3.2	2.6	0.6
Probability weight	**21.0**	**45.0**	**20.0**	**14.0**	30.0	45.0	20.0	5.0

(1) The five-year period starts after Q1 2022 for 30 June 2022 and Q3 2021 for 31 December 2021.
(2) CAGR and total change figures are not comparable with 31 December 2021 data, as the starting quarters are different.

Probability weightings of scenarios

NWB Group's approach to IFRS 9 multiple economic scenarios (MES) involves selecting a suitable set of discrete scenarios to characterise the distribution of risks in the economic outlook and assigning appropriate probability weights. The scale of the economic effect of COVID-19 and the range of recovery paths had necessitated subjective assignment of probability weights. However, for June 2022, NWB Group resurrected the quantitative approach used pre-COVID-19. The approach involves comparing UK GDP paths for NWB Group's scenarios against a set of 1,000 model runs, following which, a percentile in the distribution is established that most closely corresponded to the scenario. The probability weight for the base case is set based on judgement while probability weights for the alternate scenarios are assigned based on these percentiles scores.

A 21% weighting was applied to the upside scenario (compared to 30% at 31 December 2021), a 45% weighting applied to the base case scenario (unchanged from 31 December 2021), a 20% weighting applied to the downside scenario (unchanged from 31 December 2021) and a 14% weighting applied to the extreme downside scenario (compared to 5% at 31 December 2021).

The assigned probability weights reflect the outputs of NWB Group's quantitative approach and were judged to be aligned with subjective assessment of balance of the risks in the economy, presenting good coverage to the range of outcomes assumed in the central scenarios, including the potential for a robust recovery on the upside and exceptionally challenging outcomes on the downside. The current geopolitical tensions pose considerable uncertainty to the economic outlook, with respect to their persistence, range of outcomes and subsequent impacts on inflation and economic activity. Given that backdrop, and the higher possibility of a more challenging economic backdrop than assumed in the base case, NWB Group judged it appropriate to apply a lower probability weight to the upside scenario and a higher probability to downside-biased scenarios, than at 31 December 2021.

7. Loan impairment provisions continued

Annual figures

GDP - annual growth

	Upside %	Base case %	Downside %	Extreme downside %
2022	4.8	3.5	2.7	2.7
2023	2.9	0.8	(2.4)	(5.1)
2024	1.7	1.4	2.1	0.3
2025	1.3	1.1	2.1	2.4
2026	1.1	1.3	2.0	2.2

Unemployment rate - annual average

	Upside %	Base case %	Downside %	Extreme downside %
2022	3.4	3.6	3.8	3.8
2023	3.0	3.8	4.9	5.9
2024	3.3	4.0	4.8	8.7
2025	3.4	4.2	4.5	7.5
2026	3.5	4.3	4.4	5.5

House price index - four quarter growth

	Upside %	Base case %	Downside %	Extreme downside %
2022	9.7	5.1	2.4	2.4
2023	5.5	2.0	(11.7)	(20.4)
2024	2.9	1.9	0.4	(4.6)
2025	3.0	2.7	5.0	12.3
2026	3.5	3.2	6.0	4.4

Commercial real estate price - four quarter growth

	Upside %	Base case %	Downside %	Extreme downside %
2022	9.5	6.8	(3.3)	(3.2)
2023	3.9	0.2	(10.8)	(27.6)
2024	1.4	(0.1)	4.5	8.5
2025	-	(1.5)	4.6	13.1
2026	(1.4)	(2.1)	4.6	5.3

Bank of England base rate - annual average

UK	Upside %	Base case %	Downside %	Extreme downside %
2022	1.05	1.28	1.05	1.05
2023	1.63	2.00	1.12	2.31
2024	1.69	2.00	0.10	4.00
2025	1.50	1.75	0.18	3.38
2026	1.44	1.73	0.44	2.25

Consumer price index - four quarter growth

UK	Upside %	Base case %	Downside %	Extreme downside %
2022	9.5	8.4	9.3	9.3
2023	(0.9)	1.1	8.1	13.7
2024	2.0	2.0	0.4	6.4
2025	2.0	2.0	1.4	4.2
2026	2.0	2.0	1.7	3.6

Worst points

	30 June 2022				31 December 2021			
	Downside %	Quarter	Extreme downside %	Quarter	Downside %	Quarter	Extreme downside %	Quarter
GDP	(3.6)	Q1 2023	(7.4)	Q3 2023	(1.8)	Q1 2022	(7.9)	Q1 2022
Unemployment rate (peak)	5.1	Q3 2023	9.0	Q2 2024	5.4	Q1 2023	9.4	Q4 2022
House price index	(12.9)	Q2 2024	(28.0)	Q2 2024	(3.0)	Q3 2023	(26.0)	Q2 2023
Commercial real estate price	(20.7)	Q2 2023	(34.7)	Q1 2024	(2.5)	Q1 2022	(29.8)	Q3 2022
Bank of England base rate	1.5	Q4 2022	4.0	Q1 2024	1.5	Q4 2022	(0.5)	Q2 2022
Consumer price index	14.8	Q2 2023	14.8	Q2 2023	7.9	Q4 2022	4.3	Q4 2021

(1) For the unemployment rate, the figures show the peak levels. For the Bank of England base rate, the figures show highest or lowest levels. For other parameters, the figures show falls relative to the starting period. The calculations are performed over five years, with a starting point of Q1 2022 for 30 June 2022 scenarios.

7. Loan impairment provisions continued

Use of the scenarios in Personal lending
Personal lending follows a discrete scenario approach. The probability of default (PD) and loss given default (LGD) values for each discrete scenario are calculated using product specific econometric models. Each account has a PD and LGD calculated as probability weighted averages across the suite of economic scenarios.

Use of the scenarios in Wholesale lending
The Wholesale lending ECL methodology is based on the concept of CCIs. The CCIs represent, similar to the exogenous component in Personal, all relevant economic loss drivers for a region/industry segment aggregated into a single index value that describes the loss rate conditions in the respective segment relative to its long-run average. A CCI value of zero corresponds to loss rates at long-run average levels, a positive CCI value corresponds to loss rates below long run average levels and a negative CCI value corresponds to loss rates above long-run average levels.

Finally, ECL is calculated using a Monte Carlo approach by averaging PD and LGD values arising from many CCI paths simulated around the central CCI projection.

The rationale for the Wholesale approach is the long-standing observation that loss rates in Wholesale portfolios tend to follow regular cycles. This allows NWB Group to enrich the range and depth of future economic conditions embedded in the final ECL beyond what would be obtained from using the discrete macro-economic scenarios alone.

Business banking, while part of the Wholesale segment, for reporting purposes, utilises the Personal lending rather than the Wholesale lending methodology.

UK economic uncertainty
Businesses are still trying to recover fully from the effects of COVID-19 and to service additional debt which was accessed during the period. New headwinds on inflation, cost of living and supply chain disruption have arisen.

Inflation and supply chain issues are presenting significant headwinds for some businesses and sectors. These are a result of various factors and in many cases are compounding and look set to remain a feature of the economic environment into 2023. NWB Group has considered where these are most likely to affect the customer base, including assessing which businesses that NWB Group do not believe will fully pass the costs onto the consumer and those that can, driving further cost of living risks. In addition, while a direct impact from the Russian invasion of Ukraine is limited, the contagion events of supply chain disruption is still anticipated with European economies being dependent on Russia, Ukraine and Belarus for a number of commodities.

The effects of these risks are not expected to be fully captured by forward-looking credit modelling, particularly given the unique high inflation, low unemployment base case outlook. Any incremental ECL effects for these risks will be captured via post model adjustments and is detailed further in the Governance and post model adjustments section.

Personal customers who had accessed payment holiday support, and where their risk profile was identified as relatively high risk are no longer collectively migrated into Stage 2, given the lack of observable default emergence from these segments and with the focus of high risk segment monitoring now shifting to the effects of inflation and the growing cost of living effect on customers.

Notes

7. Loan impairment provisions continued

Model monitoring and enhancement

As of January 2022, a new regulatory definition of default for was introduced in line with PRA and EBA guidance. This definition of default was also adopted for IFRS 9. Underlying observed one year default rates (after isolating one-off effects from the new definition of default) across all portfolios still trend at or below pre-COVID-19 levels. As a result, most recent back-testing of forward-looking IFRS 9 PDs continues to show some overprediction in some portfolios. As in previous quarters, model recalibrations to adjust for this overprediction have been deferred based on the judgment that low default rate actuals during COVID-19 were distorted, due to government support.

Going forward, NWB Group expects potential increases in default emergence to come primarily from forward-looking risks like high inflation and rising interest rates, rather than from delayed COVID-19 effects. Therefore, previously applied lags to the projections from the economic forecasting models of up to 12 months have been discontinued.

For Personal mortgages, new fully redeveloped PD and LGD models were implemented in Q1, which removed the need for several model adjustments. In addition, newly approved IFRS 9 models for Personal unsecured portfolios are at a parallel run stage awaiting implementation in Q3 2022, with expected effects on staging and ECL captured at 30 June 2022 used to support the reported ECL estimates.

Scenario sensitivity – Personal only

For the unsecured Personal lending portfolios, the ECL sensitivity analyses now leverage the newly approved PD models.

Governance and post model adjustments

The IFRS 9 PD, EAD and LGD models are subject to NWB Group's model risk policy that stipulates periodic model monitoring, periodic re-validation and defines approval procedures and authorities according to model materiality. Various post model adjustments were applied where management judged they were necessary to ensure an adequate level of overall ECL provision. All post model adjustments were subject to formal approval through provisioning governance, and were categorised as follows (business level commentary is provided below):

- Deferred model calibrations – ECL adjustments where PD model monitoring indicated that actual defaults were below estimated levels but where it was judged that an implied ECL release was not supportable due to the influence of government support schemes on default levels in the past two years. As a consequence, any potential ECL release was deferred and retained on the balance sheet until modelled ECL levels are affirmed by new model parallel runs or similar analyses.
- Economic uncertainty – ECL adjustments primarily arising from uncertainties associated with increased inflation and cost of living risks as well as supply chain disruption, along with the residual effect of COVID-19 and government support schemes. In all cases, management judged that additional ECL was required until further credit performance data became available as the full effects of these issues matures.
- Other adjustments – ECL adjustments where it was judged that the modelled ECL required to be amended.

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

ECL post model adjustments

	Retail Banking			Commercial	
	Mortgages	Other	Private Banking	& Institutional	Total
30 June 2022	**£m**	**£m**	**£m**	**£m**	**£m**
Deferred model calibrations	**-**	**-**		**52**	**52**
Economic uncertainty	**78**	**67**	**11**	**291**	**447**
Other adjustments	**19**	**(21)**	**-**	**8**	**6**
Total	**97**	**46**	**11**	**351**	**505**
31 December 2021					
Deferred model calibrations	48	80	-	51	179
Economic uncertainty	46	80	5	285	416
Other adjustments	26	-	-	2	28
Total	120	160	5	338	623

7. Loan impairment provisions continued

- Retail Banking – The judgemental post model adjustment for deferred model calibrations of £128 million at 31 December 2021 was no longer required. This was due, firstly, to the removal of the mortgage element of this post model adjustment because of the implementation of a new IFRS 9 PD model in Q1 2022. In addition, the effects of new PD models on loan and overdraft portfolios are now captured in the staging and ECL estimates at 30 June 2022, negating the need for further management judgement on PD calibration adjustments.
- The post model adjustment for economic uncertainty increased from £126 million to £145 million, reflecting the increased level of uncertainty since 31 December 2021 as a result of sharply rising inflation, cost of living pressures and the expected effect on consumers and the broader economy. The primary element of these economic uncertainty adjustments was a new £126 million ECL uplift, to capture the risk on segments of the Retail portfolio that are more susceptible to the effects of cost of living rises, focusing on key affordability lenses, including customers with lower incomes in fuel poverty and over-indebted borrowers. This adjustment has superseded the previously held £18 million for COVID-19 payment holiday high risk customers and the £104 million judgemental ECL release holdback at 31 December 2021. This demonstrated management's view of a dissipating risk of economic effects from COVID-19 with the focus now on risks associated with cost of living and affordability. The introduction of the new cost of living post model adjustment at 30 June 2022 allocated more ECL to Stage 1 given the forward-looking nature of the cost of living and inflation threat, whereas the previous COVID-19 post model adjustments were focused on Stage 2 (for example, high risk payment holiday cases migrated into Stage 2).
- Other judgmental overlays included a post model adjustment of £14 million to capture the effect of potential cladding risk in the portfolio. In addition, a temporary £21 million ECL reduction adjustment was in place to reflect, on a forward-looking basis, the associated effects of a new credit card PD model that is pending implementation.
- Commercial & Institutional – The post model adjustment for economic uncertainty remained broadly stable at £291 million (31 December 2021 – £285 million.) It included an overlay of £256 million to cover the residual risks from COVID-19, including the risk that government support schemes. during COVID-19 could have suppressed defaults that may materialise in future periods above expected default levels, concerns surrounding associated debt to customers that have utilised government support schemes and a new risk from inflation and supply chain issues which will present significant new headwinds for a number of sectors. The amount relating to the new inflation and supply chain risk was £83 million and is a mechanistic adjustment, where a credit downgrade was applied to the sectors that were considered most at risk from these headwinds.
- The post model adjustment for deferred model calibrations on the business banking portfolio was broadly unchanged at £52 million (31 December 2021 – £51 million). This reflected management's judgment that the modelled ECL reduction remained unsupportable while portfolio performance was being underpinned by the various support schemes. New business banking models are currently being developed in H2 2022 in part to address this concern.
- Other adjustments included an overlay of £8 million to mitigate the effect of operational timing delays in the identification and flagging of a significant increase in credit risk (SICR). This increased from £2 million at 31 December 2021, mainly as a result of increased Stage 1 balances and an increase in Stage 1 to Stage 3 flows.

7. Loan impairment provisions continued

Wholesale support schemes

The table below shows the sector split for the Bounce Back Loan Scheme (BBLS) as well as associated debt split by stage. Associated debt refers to the non-BBLS lending to customers who also have BBLS lending.

	Gross carrying amount										
	BBL				Associated debt				ECL on associated debt		
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3
30 June 2022	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Wholesale											
Property	**1,240**	**200**	**150**	**1,590**	**1,078**	**171**	**60**	**1,309**	**4**	**16**	**21**
Financial institutions	**29**	**4**	**1**	**34**	**26**	**2**	**-**	**28**	**-**	**-**	**-**
Sovereign	**6**	**1**	**1**	**8**	**2**	**-**	**-**	**2**	**-**	**-**	**-**
Corporate	**3,829**	**635**	**689**	**5,153**	**2,704**	**700**	**109**	**3,513**	**10**	**66**	**52**
Of which:											
Agriculture	***1,859***	***326***	***449***	***2,634***	***1,447***	***363***	***44***	***1,854***	***6***	***34***	***24***
Airlines and aerospace	***4***	***1***	***1***	***6***	***1***	***-***	***-***	***1***	***-***	***-***	***-***
Automotive	***264***	***34***	***31***	***329***	***116***	***25***	***4***	***145***	***1***	***2***	***2***
Health	***197***	***24***	***11***	***232***	***320***	***75***	***16***	***411***	***1***	***4***	***4***
Land transport and logistics	***148***	***26***	***27***	***201***	***62***	***11***	***2***	***75***	***-***	***2***	***2***
Leisure	***578***	***113***	***84***	***775***	***373***	***154***	***25***	***552***	***1***	***16***	***11***
Oil and gas	***7***	***2***	***1***	***10***	***4***	***1***	***-***	***5***	***-***	***-***	***-***
Retail	***670***	***99***	***77***	***846***	***347***	***63***	***14***	***424***	***1***	***7***	***8***
Total	**5,104**	**840**	**841**	**6,785**	**3,810**	**873**	**169**	**4,852**	**14**	**82**	**73**
31 December 2021											
Wholesale											
Property	1,480	218	99	1,797	1,232	165	51	1,448	3	13	16
Financial institutions	33	5	1	39	9	20	-	29	-	1	-
Sovereign	7	1	-	8	2	-	-	2	-	-	-
Corporate	4,593	703	334	5,630	2,481	1,087	84	3,652	10	66	34
Of which:											
Agriculture	*302*	*86*	*6*	*394*	*827*	*396*	*14*	*1,237*	*3*	*16*	*4*
Airlines and aerospace	*5*	*1*	*1*	*7*	*1*	*1*	*-*	*2*	*-*	*-*	*-*
Automotive	*309*	*43*	*21*	*373*	*119*	*39*	*2*	*160*	*1*	*2*	*1*
Health	*233*	*26*	*7*	*266*	*287*	*131*	*13*	*431*	*1*	*7*	*3*
Land transport and logistics	*180*	*32*	*19*	*231*	*57*	*26*	*2*	*85*	*-*	*2*	*1*
Leisure	*706*	*122*	*55*	*883*	*367*	*208*	*25*	*600*	*1*	*15*	*9*
Oil and gas	*8*	*2*	*1*	*11*	*3*	*1*	*-*	*4*	*-*	*-*	*-*
Retail	*800*	*109*	*47*	*956*	*310*	*127*	*8*	*445*	*2*	*7*	*4*
Total	6,113	927	434	7,474	3,724	1,272	135	5,131	13	80	50

Measurement uncertainty and ECL sensitivity analysis

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

The focus of the simulations is on ECL provisioning requirements on performing exposures in Stage 1 and Stage 2. The simulations are run on a stand-alone basis and are independent of each other; the potential ECL impacts reflect the simulated impact at 30 June 2022. Scenario impacts on a SICR should be considered when evaluating the ECL movements of Stage 1 and Stage 2. In all scenarios the total exposure was the same but exposure by stage varied in each scenario.

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

The impact arising from the base case, upside, downside and extreme downside scenarios has been simulated. These scenarios are used in the methodology for Personal multiple economic scenarios as described in the Economic loss drivers section. In the simulations, NWB Group has assumed that the economic macro variables associated with these scenarios replace the existing base case economic assumptions, giving them a 100% probability weighting and therefore serving as a single economic scenario.

These scenarios have been applied to all modelled portfolios in the analysis below, with the simulation impacting both PDs and LGDs. Modelled post model adjustments present in the underlying ECL estimates are also sensitised in line with the modelled ECL movements, but those that were judgmental in nature, primarily those for deferred model calibrations and economic uncertainty, are not (refer to the Governance and post model adjustments section). As expected, the scenarios create differing impacts on ECL by portfolio and the impacts are deemed reasonable. In this simulation, it is assumed that existing modelled relationships between key economic variables and loss drivers hold, but in practice other factors would also have an impact, for example, potential customer behaviour changes and policy changes by lenders that might impact on the wider availability of credit.

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

7. Loan impairment provisions continued

30 June 2022	Actual	Base case	Upside	Downside	Extreme downside
Stage 1 modelled exposure (£m)					
Retail Banking - mortgages	151,610	151,351	152,106	151,527	149,641
Retail Banking - unsecured	6,139	6,185	6,326	6,100	5,595
Wholesale - property	18,366	18,655	18,710	17,569	14,764
Wholesale - non-property	77,797	80,368	80,918	74,852	63,107
	253,912	256,559	258,060	250,048	233,107
Stage 1 modelled ECL (£m)					
Retail Banking - mortgages	40	41	38	45	46
Retail Banking - unsecured	107	127	123	129	113
Wholesale - property	28	25	20	36	58
Wholesale - non-property	119	127	126	130	109
	294	320	307	340	326
Stage 2 modelled exposure (£m)					
Retail Banking - mortgages	7,278	7,537	6,782	7,361	9,247
Retail Banking - unsecured	2,253	2,207	2,066	2,292	2,797
Wholesale - property	1,890	1,601	1,546	2,687	5,492
Wholesale - non-property	10,939	8,368	7,818	13,884	25,629
	22,360	19,713	18,212	26,224	43,165
Stage 2 modelled ECL (£m)					
Retail Banking - mortgages	57	56	51	57	66
Retail Banking - unsecured	282	243	213	262	344
Wholesale - property	69	50	44	83	213
Wholesale - non-property	420	354	321	479	923
	828	703	629	881	1,546
Stage 1 and Stage 2 modelled exposure (£m)					
Retail Banking - mortgages	158,888	158,888	158,888	158,888	158,888
Retail Banking - unsecured	8,392	8,392	8,392	8,392	8,392
Wholesale - property	20,256	20,256	20,256	20,256	20,256
Wholesale - non-property	88,736	88,736	88,736	88,736	88,736
	276,272	276,272	276,272	276,272	276,272
Stage 1 and Stage 2 modelled ECL (£m)					
Retail Banking - mortgages	97	97	89	102	112
Retail Banking - unsecured	389	370	336	391	457
Wholesale - property	97	75	64	119	271
Wholesale - non-property	539	481	447	609	1,032
	1,122	1,023	936	1,221	1,872
Stage 1 and Stage 2 coverage (%)					
Retail Banking - mortgages	0.06	0.06	0.06	0.06	0.07
Retail Banking - unsecured	4.64	4.41	4.00	4.66	5.45
Wholesale - property	0.48	0.37	0.32	0.59	1.34
Wholesale - non-property	0.61	0.54	0.50	0.69	1.16
	0.41	0.37	0.34	0.44	0.68
Reconciliation to Stage 1 and Stage 2 ECL (£m)					
ECL on modelled exposures	1,122	1,023	936	1,221	1,872
ECL on non-modelled exposures	36	36	36	36	36
Total Stage 1 and Stage 2 ECL	1,158	1,059	972	1,257	1,908
Variance – (lower)/higher to actual total Stage 1 and Stage 2 ECL	-	(98)	(186)	99	751

(1) Variations in future undrawn exposure values across the scenarios are modelled, however the exposure position reported is that used to calculate modelled ECL as at 30 June 2022 and therefore does not include variation in future undrawn exposure values.
(2) Reflects ECL for all modelled exposure in scope for IFRS 9. The analysis excludes non-modelled portfolios and exposure relating to bonds and cash.
(3) All simulations are run on a stand-alone basis and are independent of each other, with the potential ECL impact reflecting the simulated impact as at 30 June 2022. The simulations change the composition of Stage 1 and Stage 2 exposure but total exposure is unchanged under each scenario as the loan population is static.
(4) Refer to the Economic loss drivers section for details of economic scenarios.
(5) Refer to the NWB Group 2021 Annual Report and Accounts for 31 December 2021 comparatives.

7. Loan impairment provisions continued

Measurement uncertainty and ECL adequacy

- During the first half of 2022, both the Stage 2 size and overall modelled ECL reduced in line with stable portfolio performance and underlying ECL driver trends. Judgmental ECL post model adjustments, although reduced in value terms from 31 December 2021, continue to reflect economic uncertainty with the expectation of increased defaults later in 2022 and beyond, still represents 21% of total ECL (31 December 2021 – 25%). These combined factors, in conjunction with the new regulatory definition of default moving riskier Stage 2 assets to Stage 3 and a new suite of Personal IFRS 9 models, contributed to a smaller range of ECL sensitivities at 30 June 2022 compared to the 2021 year end.
- If the economics were as negative as observed in the extreme downside, total Stage 1 and Stage 2 ECL was simulated to increase by £0.8 billion (approximately 65%). In this scenario, Stage 2 exposure increased significantly and was the key driver of the simulated ECL rise. The movement in Stage 2 balances in the other simulations was less significant.
- In the Wholesale portfolio, there was a significant increase to ECL under both a moderate and extreme downside scenario. The Wholesale property ECL increase under a moderate and extreme downside scenario was driven by commercial real estate prices which show negative growth for 2022 and 2023 and significant deterioration in the stock index. The non-property increase under a moderate and extreme downside scenario was driven by GDP contraction, unemployment growth and interest rate changes.

The changes in the economic outlook and scenarios used in the IFRS 9 MES framework at 30 June 2022 to capture the increased risks of inflation, cost of living and supply chain had a minimal effect on modelled ECL. Given that uncertainty has increased due to these risks, NWB Group utilised a framework of quantitative and qualitative measures to support the directional change and levels of ECL coverage, including economic data, credit performance insights on higher risk portfolio segments and problem debt trends. This was particularly important for consideration of post model adjustments.

As the effects of inflation, cost of living and supply chain risks evolve during 2022 and into 2023 and government support schemes have to be serviced, there is a risk of credit deterioration. However, the income statement effect of this will be mitigated by the forward-looking provisions retained on the balance sheet at 30 June 2022.

There are a number of key factors that could drive further downside to impairments, through deteriorating economic and credit metrics and increased stage migration as credit risk increases for more customers. Such factors would include an adverse deterioration in GDP and unemployment in the economies in which NWB Group operates.

Notes

7. Loan impairment provisions continued

Loan exposure and impairment metrics

The table below shows gross loans and related credit impairment measures, within the scope of the IFRS 9 ECL framework.

	30 June 2022 £m	31 December 2021 £m
Loans - amortised cost		
Stage 1	**276,639**	264,656
Stage 2	**21,818**	26,003
Stage 3	**3,860**	2,985
Inter-Group (1)	**3,361**	2,555
Total	**305,678**	296,199
ECL provisions (2)		
Stage 1	**317**	231
Stage 2	**838**	1,105
Stage 3	**1,210**	1,167
Inter-Group	**1**	1
	2,366	2,504
ECL provisions coverage (3)		
Stage 1 (%)	**0.11**	0.09
Stage 2 (%)	**3.84**	4.25
Stage 3 (%)	**31.35**	39.10
Inter-Group (%)	**0.03**	0.04
	0.78	0.85

	Half year ended	
	30 June 2022 £m	30 June 2021 £m
Impairment losses		
ECL (release)/charge (4)		
Stage 1	**(292)**	(484)
Stage 2	**179**	(29)
Stage 3	**94**	76
Third party	**(19)**	(437)
Inter-Group	**1**	(1)
	(18)	(438)
Amounts written-off	**121**	209

(1) NWB Group's intercompany assets were classified in Stage 1.
(2) Includes £2 million (31 December 2021 – £3 million) related to assets classified as FVOCI.
(3) ECL provisions coverage is calculated as ECL provisions divided by loans – amortised cost and FVOCI. It is calculated on third party loans and total ECL provisions.
(4) Includes nil (30 June 2021 – £1 million charge) related to other financial assets, of which nil (30 June 2021 – £1 million release) related to assets classified as FVOCI; and a £2 million release (30 June 2021 – £6 million release) related to contingent liabilities.
(5) The table shows gross loans only and excludes amounts that were outside the scope of the ECL framework. Refer to page 33 for Financial instruments within the scope of the IFRS 9 ECL framework in the NWB Group 2021 Annual Report and Accounts for further details. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totaling £100.8 billion (31 December 2021 – £100.6 billion) and debt securities of £20.6 billion (31 December 2021 – £28.2 billion).

- Stage 3 loans increased, as write-offs and repayments were more than offset by the effect of the new regulatory definition of default, which in isolation, led to an increase of approximately £0.5 billion in Stage 3 balances, mostly in retail mortgages and an increase in defaults on government scheme lending.
- Underlying flows into default remained subdued during H1 2022. However, it is expected that defaults will increase as the year progresses and growing inflationary pressures on businesses, consumers and the broader economy continue to evolve.
- Stage 2 loans and ECL reduced further during the first half of 2022, with positive trends in underlying risk metrics maintained since 31 December 2021 and migration of exposures into Stage 3 because of the new regulatory default definition mentioned previously.
- Reflecting the stable portfolio performance and resultant ECL releases, there was a net impairment release of £18 million for the first half of the year.

Notes

7. Loan impairment provisions continued

Sector analysis

The table below shows ECL by stage, for the Personal portfolios and selected sectors of the Wholesale portfolios.

	Loans - amortised cost				Off-balance sheet		ECL provisions			
	Stage 1	Stage 2	Stage 3	Total	Loan commitments	Contingent liabilities	Stage 1	Stage 2	Stage 3	Total
30 June 2022	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Personal	175,728	9,483	2,150	187,361	35,517	52	159	341	705	1,205
Mortgages	167,476	7,311	1,455	176,242	16,414	-	49	57	143	249
Credit cards	2,372	804	80	3,256	12,212	-	52	92	53	197
Other personal	5,880	1,368	615	7,863	6,891	52	58	192	509	759
Wholesale	100,911	12,335	1,710	114,956	50,233	2,283	158	497	505	1,160
Property	19,047	1,903	419	21,369	9,551	361	29	67	112	208
Financial institutions	33,355	132	68	33,555	2,997	146	8	7	19	34
Sovereign	4,519	73	4	4,596	582	-	11	1	-	12
Corporate	43,990	10,227	1,219	55,436	37,103	1,776	110	422	374	906
Of which:										
Agriculture	*3,419*	*669*	*45*	*4,133*	*634*	*12*	*9*	*38*	*20*	*67*
Airlines and aerospace	747	485	38	1,270	1,062	59	2	29	7	38
Automotive	4,217	1,374	38	5,629	3,154	43	10	22	10	42
Health	3,033	367	84	3,484	449	2	5	18	22	45
Land transport and logistics	3,307	586	38	3,931	2,421	51	5	23	10	38
Leisure	2,992	2,502	225	5,719	1,174	51	17	150	94	261
Oil and gas	578	99	36	713	746	354	1	2	24	27
Retail	4,631	1,013	161	5,805	3,658	324	11	22	55	88
Total	276,639	21,818	3,860	302,317	85,750	2,335	317	838	1,210	2,365
31 December 2021										
Personal	166,904	11,189	1,610	179,703	32,141	56	117	480	660	1,257
Mortgages	159,228	8,921	1,032	169,181	13,481	-	22	123	166	311
Credit cards	2,215	734	67	3,016	11,809	-	48	115	46	209
Other personal	5,461	1,534	511	7,506	6,851	56	47	242	448	737
Wholesale	97,752	14,814	1,375	113,941	50,258	2,138	114	625	507	1,246
Property	18,645	2,038	391	21,074	9,888	287	17	70	131	218
Financial institutions	32,710	567	25	33,302	3,310	80	6	35	2	43
Sovereign	4,379	37	1	4,417	734	-	12	-	-	12
Corporate	42,018	12,172	958	55,148	36,326	1,771	79	520	374	973
Of which:										
Agriculture	*2,973*	*942*	*47*	*3,962*	*737*	*15*	*9*	*29*	*18*	*56*
Airlines and aerospace	*584*	*471*	*36*	*1,091*	*1,107*	*52*	*1*	*30*	*8*	*39*
Automotive	*4,640*	*1,206*	*31*	*5,877*	*2,617*	*48*	*8*	*28*	*8*	*44*
Health	*2,503*	*864*	*78*	*3,445*	*449*	*2*	*6*	*38*	*22*	*66*
Land transport and logistics	*3,183*	*663*	*35*	*3,881*	*2,322*	*59*	*4*	*42*	*10*	*56*
Leisure	*2,747*	*3,036*	*199*	*5,982*	*1,192*	*46*	*8*	*159*	*87*	*254*
Oil and gas	*916*	*110*	*33*	*1,059*	*610*	*419*	*1*	*6*	*23*	*30*
Retail	*4,562*	*1,057*	*142*	*5,761*	*3,676*	*297*	*7*	*23*	*51*	*81*
Total	264,656	26,003	2,985	293,644	82,399	2,194	231	1,105	1,167	2,503

- Personal – Balance sheet growth continued during H1 2022, primarily in mortgages, where new lending remained strong. Unsecured lending balances increased during H1 2022, following the easing of COVID-19 restrictions. Total ECL coverage reduced slightly during 2022, reflective of low unemployment and stable portfolio performance, while maintaining sufficient ECL coverage for key portfolios above 2019 levels, given increased inflationary and cost of living pressures. Stage 3 ECL increased overall, mainly because of the IFRS 9 alignment to the new regulatory default definition, implemented on 1 January 2022. This change resulted in an increase in Stage 3 exposures of approximately £0.5 billion, mostly in mortgages. Stage 2 balances decreased during the first half of the year, reflecting continued stability in IFRS 9 PD estimates and the consequence of the migration of balances into Stage 3 under the new regulatory default definition. The implementation of new mortgage IFRS 9 models resulted in lower Stage 3 ECL coverage due to reduced loss estimates for cases where the customer was not subject to repossession activity and was the primary driver for the change in overall Personal Stage 3 coverage during H1 2022
- Wholesale – The balance sheet remained broadly stable throughout the period with growth of less than 1% primarily in the corporate sectors. Sector appetite is regularly reviewed with continued focus on appetite to high oversight sectors. Strategic reductions and right sizing of appetite limits continued to be achieved. Stage 2 balances continued to fall mainly reflecting positive portfolio performance which lowered PDs and resulted in exposure migrating back into Stage 1. In addition, some deterioration in government scheme lending resulted in exposure moving from Stage 2 into Stage 3. PD deterioration remained the primary driver of cases moving into Stage 2. The ECL release was largely due to improvements in underlying PDs and reduced Stage 2 balances, as assets migrated back into Stage 1.

7. Loan impairment provisions continued

Flow statements

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

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

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
NWB Group total	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2022	**388,953**	**231**	**27,337**	**1,105**	**3,147**	**1,167**	**419,437**	**2,503**
Currency translation and other adjustments	**2,038**	**(2)**	**94**	**(1)**	**19**	**(9)**	**2,151**	**(12)**
Inter-Group transfers	**(68)**	**-**	**-**	**-**	**-**	**-**	**(68)**	**-**
Transfers from Stage 1 to Stage 2	**(13,592)**	**(56)**	**13,592**	**56**	**-**	**-**	**-**	**-**
Transfers from Stage 2 to Stage 1	**14,094**	**426**	**(14,094)**	**(426)**	**-**	**-**	**-**	**-**
Transfers to Stage 3	**(249)**	**(1)**	**(1,582)**	**(107)**	**1,831**	**108**	**-**	**-**
Transfers from Stage 3	**75**	**8**	**305**	**31**	**(380)**	**(39)**	**-**	**-**
Net re-measurement of ECL on stage transfer		**(371)**		**395**		**131**		**155**
Changes in risk parameters (model inputs)		**56**		**(98)**		**29**		**(13)**
Other changes in net exposure	**(5,172)**	**26**	**(2,780)**	**(117)**	**(515)**	**(15)**	**(8,467)**	**(106)**
Other (P&L only items)		**(3)**		**(1)**		**(51)**		**(55)**
Income statement (releases)/charges		**(292)**		**179**		**94**		**(19)**
Amounts written-off	**-**	**-**	**-**	**-**	**(121)**	**(121)**	**(121)**	**(121)**
Unwinding of discount		**-**		**-**		**(41)**		**(41)**
At 30 June 2022	**386,079**	**317**	**22,872**	**838**	**3,981**	**1,210**	**412,932**	**2,365**
Net carrying amount	**385,762**		**22,034**		**2,771**		**410,567**	
At 1 January 2021	303,032	365	60,326	2,060	3,272	1,285	366,630	3,710
2021 movements	44,163	(65)	(19,431)	(484)	14	(96)	24,746	(645)
At 30 June 2021	347,195	300	40,895	1,576	3,286	1,189	391,376	3,065
Net carrying amount	346,895		39,319		2,097		388,311	

Notes

7. Loan impairment provisions continued

Flow statements

Retail Banking - mortgages	Stage 1 Financial assets £m	Stage 1 ECL £m	Stage 2 Financial assets £m	Stage 2 ECL £m	Stage 3 Financial assets £m	Stage 3 ECL £m	Total Financial assets £m	Total ECL £m
At 1 January 2022	**146,450**	**22**	**8,692**	**123**	**875**	**158**	**156,017**	**303**
Currency translation and other adjustments	**-**	**-**	**-**	**-**	**3**	**2**	**3**	**2**
Transfers from Stage 1 to Stage 2	**(4,695)**	**(2)**	**4,695**	**2**	**-**	**-**	**-**	**-**
Transfers from Stage 2 to Stage 1	**4,948**	**44**	**(4,948)**	**(44)**	**-**	**-**	**-**	**-**
Transfers to Stage 3	**(32)**	**-**	**(688)**	**(21)**	**720**	**21**	**-**	**-**
Transfers from Stage 3	**11**	**-**	**168**	**7**	**(179)**	**(7)**	**-**	**-**
Net re-measurement of ECL on stage transfer		**(42)**		**41**		**(10)**		**(11)**
Changes in risk parameters (model inputs)		**29**		**(42)**		**3**		**(10)**
Other changes in net exposure	**6,554**	**-**	**(624)**	**(9)**	**(128)**	**(4)**	**5,802**	**(13)**
Other (P&L only items)		**(2)**		**-**		**(16)**		**(18)**
Income statement (releases)/charges		**(15)**		**(10)**		**(27)**		**(52)**
Amounts written-off	**-**	**-**	**-**	**-**	**(15)**	**(15)**	**(15)**	**(15)**
Other movements		**-**		**-**		**(13)**		**(13)**
At 30 June 2022	**153,236**	**51**	**7,295**	**57**	**1,276**	**135**	**161,807**	**243**
Net carrying amount	**153,185**		**7,238**		**1,141**		**161,564**	
At 1 January 2021	118,490	21	24,415	181	849	143	143,754	345
2021 movements	17,023	(4)	(11,528)	(37)	75	12	5,570	(29)
At 30 June 2021	135,513	17	12,887	144	924	155	149,324	316
Net carrying amount	135,496		12,743		769		149,008	

- Despite the strong portfolio growth during 2022 so far, ECL levels for mortgages reduced during the same period. The decrease in ECL was primarily a result of stable portfolio performance alongside the implementation of new IFRS 9 models in Q1 2022. Collectively, this resulted in lower levels of ECL requirement.
- More specifically, strong credit performance resulted in the migration of assets from Stage 2 into Stage 1, with an associated decrease from lifetime ECL to a 12 month ECL. In addition, the introduction of the new cost of living post model adjustment at 30 June 2022 allocated more ECL to Stage 1 given the forward-looking nature of the cost of living and inflation threat, whereas the previous COVID-19 post model adjustments were focused on Stage 2 (for example, high risk payment holiday cases migrated into Stage 2). Refer to the Governance and post model adjustments section for more information.
- The Stage 3 inflow relates to the IFRS 9 adoption of the new regulatory definition of default in January 2022. However, the Stage 3 ECL levels reduced since 31 December 2021 primarily due to reduced LGD estimates as a result of the new model implementation in Q1 2022 alongside stable underlying default levels. The relatively small ECL cost for net re-measurement on stage transfer included the effect of risk targeted ECL adjustments, when previously in Stage 2. Refer to the Governance and post model adjustments section for further details.
- Write-off occurs once the repossessed property has been sold and there is a residual shortfall balance remaining outstanding. This would typically be within five years from default but can be longer. Given repossession activity remains subdued relative to pre-COVID-19 levels, write-offs remained at a lower level.

Notes

7. Loan impairment provisions continued

Flow statements

Retail Banking - credit cards	Stage 1		Stage 2		Stage 3		Total	
	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m
At 1 January 2022	**2,096**	**47**	**751**	**114**	**69**	**45**	**2,916**	**206**
Transfers from Stage 1 to Stage 2	**(485)**	**(19)**	**485**	**19**	**-**	**-**	**-**	**-**
Transfers from Stage 2 to Stage 1	**364**	**50**	**(364)**	**(50)**	**-**	**-**	**-**	**-**
Transfers to Stage 3	**(10)**	**-**	**(42)**	**(18)**	**52**	**18**	**-**	**-**
Transfers from Stage 3	**-**	**-**	**3**	**1**	**(3)**	**(1)**	**-**	**-**
Net re-measurement of ECL on stage transfer		**(30)**		**75**		**11**		**56**
Changes in risk parameters (model inputs)		**(3)**		**(28)**		**5**		**(26)**
Other changes in net exposure	**220**	**6**	**(36)**	**(23)**	**(9)**	**1**	**175**	**(16)**
Other (P&L only items)		**-**		**(1)**		**(2)**		**(3)**
Income statement (releases)/charges		**(27)**		**23**		**15**		**11**
Amounts written-off	**-**	**-**	**-**	**-**	**(25)**	**(25)**	**(25)**	**(25)**
Other movements		**-**		**-**		**(2)**		**(2)**
At 30 June 2022	**2,185**	**51**	**797**	**90**	**84**	**52**	**3,066**	**193**
Net carrying amount	**2,134**		**707**		**32**		**2,873**	
At 1 January 2021	1,676	41	1,071	178	83	55	2,830	274
2021 movements	93	(2)	(214)	(30)	(17)	(13)	(138)	(45)
At 30 June 2021	1,769	39	857	148	66	42	2,692	229
Net carrying amount	1,730		709		24		2,463	

- The overall decrease in ECL was mainly due to the reduction in Stage 2 ECL reflecting the stable portfolio performance, causing PDs to decrease. This resulted in reduced levels of SICR identification and ECL requirement.
- In addition, a temporary adjustment for an ECL release is in place to reflect, on a forward-looking basis, the associated effects of a new credit card PD model that is pending implementation in Q3 2022. This is captured in changes in risk parameters for Stage 1 and Stage 2.
- Cards balances have grown since the 2021 year end, in line with industry trends in the UK, as unsecured borrowing demand increased.
- Reflecting the strong credit performance observed during 2022, Stage 3 inflows remained subdued and the effect of the IFRS 9 adoption of the new regulatory definition of default was minimal for Cards, therefore Stage 3 ECL movement was low in H1 2022.
- Charge-off (analogous to partial write-off) typically occurs after 12 missed payments.

Notes

7. Loan impairment provisions continued

Flow statements

Retail Banking - other personal unsecured	Stage 1 Financial assets £m	Stage 1 ECL £m	Stage 2 Financial assets £m	Stage 2 ECL £m	Stage 3 Financial assets £m	Stage 3 ECL £m	Total Financial assets £m	Total ECL £m
At 1 January 2022	**3,636**	**43**	**1,574**	**242**	**510**	**438**	**5,720**	**723**
Currency translation and other adjustments	-	(3)	-	-	5	-	5	(3)
Transfers from Stage 1 to Stage 2	(824)	(15)	824	15	-	-	-	-
Transfers from Stage 2 to Stage 1	630	87	(630)	(87)	-	-	-	-
Transfers to Stage 3	(13)	-	(163)	(47)	176	47	-	-
Transfers from Stage 3	1	1	12	7	(13)	(8)	-	-
Net re-measurement of ECL on stage transfer		(78)		100		52		74
Changes in risk parameters (model inputs)		11		(12)		28		27
Other changes in net exposure	435	6	(193)	(27)	(38)	(11)	204	(32)
Other (P&L only items)		-		-		4		4
Income statement (releases)/charges		(61)		61		73		73
Amounts written-off	-	-	-	-	(43)	(43)	(43)	(43)
Other movements		-		-		(3)		(3)
At 30 June 2022	**3,865**	**52**	**1,424**	**191**	**597**	**500**	**5,886**	**743**
Net carrying amount	**3,813**		**1,233**		**97**		**5,143**	
At 1 January 2021	2,668	49	2,802	372	479	398	5,949	819
2021 movements	355	(4)	(773)	(83)	(1)	7	(419)	(80)
At 30 June 2021	3,023	45	2,029	289	478	405	5,530	739
Net carrying amount	2,978		1,740		73		4,791	

- Overall ECL has remained stable, with a modest increase driven by Stage 3 ECL linked to the IFRS 9 adoption of the new regulatory definition of default in January 2022, with underlying Stage 3 inflows remaining stable, reflecting the strong credit performance observed during 2022.
- More specifically, the reduced PDs alongside muted portfolio deterioration, resulted in migration of assets from Stage 2 into Stage 1, with an associated decrease from lifetime ECL to a 12 month ECL and kept Stage 2 levels stable.
- Unsecured retail balances have grown since the 2021 year end, in line with industry trends in the UK, as unsecured borrowing demand increased.
- Write-off occurs once recovery activity with the customer has been concluded or there are no further recoveries expected, but no later than six years after default.

Notes

7. Loan impairment provisions continued

Flow statements

Commercial & Institutional total	Stage 1 Financial assets £m	Stage 1 ECL £m	Stage 2 Financial assets £m	Stage 2 ECL £m	Stage 3 Financial assets £m	Stage 3 ECL £m	Total Financial assets £m	Total ECL £m
At 1 January 2022	**61,223**	**96**	**15,055**	**588**	**1,422**	**486**	**77,700**	**1,170**
Currency translation and other adjustments	459	(1)	93	-	11	1	563	-
Inter-Group transfers	(64)	-	-	-	-	-	(64)	-
Transfers from Stage 1 to Stage 2	(6,991)	(16)	6,991	16	-	-	-	-
Transfers from Stage 2 to Stage 1	7,151	225	(7,151)	(225)	-	-	-	-
Transfers to Stage 3	(77)	-	(578)	(21)	655	21	-	-
Transfers from Stage 3	38	6	49	11	(87)	(17)	-	-
Net re-measurement of ECL on stage transfer		(207)		173		74		40
Changes in risk parameters (model inputs)		21		(14)		(6)		1
Other changes in net exposure	4,455	13	(1,830)	(53)	(286)	(9)	2,339	(49)
Other (P&L only items)		(1)		(1)		(27)	-	(29)
Income statement releases		(174)		105		32		(37)
Amounts written-off	-	-	-	-	(39)	(39)	(39)	(39)
Other movements		-		-		(21)		(21)
At 30 June 2022	**66,194**	**137**	**12,629**	**475**	**1,676**	**490**	**80,499**	**1,102**
Net carrying amount	**66,057**		**12,154**		**1,186**		**79,397**	
At 1 January 2021	51,221	214	29,061	1,247	1,605	652	81,887	2,113
2021 movements	3,098	(48)	(6,219)	(310)	(85)	(103)	(3,206)	(461)
At 30 June 2021	54,319	166	22,842	937	1,520	549	78,681	1,652
Net carrying amount	54,153		21,905		971		77,029	

- There was an uplift in Stage 1 exposure from new and increased lending along with movements in currency translations. Stage 1 ECL increased due to an uplift in post model adjustments, with a new adjustment for inflation and supply chain issues, and additional ECL on loans that migrated from Stage 2 and Stage 3.
- Stage 2 exposure and ECL reduced reflecting positive portfolio performance which lowered PDs and generated a significant reduction in ECL from stage transfers. The Stage 2 ECL was further reduced due to a decrease in the economic uncertainty adjustment.
- Flows into Stage 3 increased due to defaults on government scheme lending, but the government guarantee meant this has not led to an increase in ECL.

Commercial & Institutional - business banking	Stage 1 Financial assets £m	Stage 1 ECL £m	Stage 2 Financial assets £m	Stage 2 ECL £m	Stage 3 Financial assets £m	Stage 3 ECL £m	Total Financial assets £m	Total ECL £m
At 1 January 2022	**5,263**	**9**	**961**	**44**	**39**	**9**	**6,263**	**62**
Currency translation and other adjustments	-	-	-	-	-	-	-	-
Transfers from Stage 1 to Stage 2	(666)	(2)	666	2	-	-	-	-
Transfers from Stage 2 to Stage 1	358	17	(358)	(17)	-	-	-	-
Transfers to Stage 3	(8)	-	(57)	(3)	65	3	-	-
Transfers from Stage 3	13	1	11	1	(24)	(2)	-	-
Net re-measurement of ECL on stage transfer		(17)		27		8		18
Changes in risk parameters (model inputs)		7		14		1		22
Other changes in net exposure	(474)	-	(286)	(6)	(39)	(5)	(799)	(11)
Other (P&L only items)		-		-		(2)		(2)
Income statement (releases)/charges		(10)		35		2		27
Amounts written-off	-	-	-	-	(1)	(1)	(1)	(1)
Other movements		-		-		(1)		(1)
At 30 June 2022	**4,486**	**15**	**937**	**62**	**40**	**12**	**5,463**	**89**
Net carrying amount	**4,471**		**875**		**28**		**5,374**	

- At a total level, exposure reduced mainly due to the repayment of government scheme debt.
- Exposure moved from Stage 1 into Stage 2 mainly due to a deterioration in some government scheme lending. ECL increased, reflecting a higher probability of default on additional lending to customers that had government scheme lending.

7. Loan impairment provisions continued

Flow statements

Commercial & Institutional - corporate	Stage 1 Financial assets £m	Stage 1 ECL £m	Stage 2 Financial assets £m	Stage 2 ECL £m	Stage 3 Financial assets £m	Stage 3 ECL £m	Total Financial assets £m	Total ECL £m
At 1 January 2022	35,073	67	11,430	460	989	355	47,492	882
Currency translation and other adjustments	367	(1)	91	-	9	12	467	11
Inter-Group transfers	(66)	-	(80)	(3)	-	-	(146)	(3)
Transfers from Stage 1 to Stage 2	(5,042)	(11)	5,042	11	-	-	-	-
Transfers from Stage 2 to Stage 1	5,356	158	(5,356)	(158)	-	-	-	-
Transfers to Stage 3	(52)	-	(364)	(14)	416	14	-	-
Transfers from Stage 3	14	3	29	9	(43)	(12)	-	-
Net re-measurement of ECL on stage transfer		(142)		118		45		21
Changes in risk parameters (model inputs)		9		(23)		(15)		(29)
Other changes in net exposure	3,061	10	(883)	(38)	(172)	(4)	2,006	(32)
Other (P&L only items)		(2)		-	-	(24)	-	(26)
Income statement (releases)/charges		(125)		57		2		(66)
Amounts written-off	-	-	-	-	(26)	(26)	(26)	(26)
Other movements		-		-		(16)		(16)
At 30 June 2022	38,711	93	9,909	362	1,173	353	49,793	808
Net carrying amount	38,618		9,547		820		48,985	

- There was an uplift in Stage 1 exposure from new and increased lending along with movements in currency translations. ECL increased due to an uplift in post model adjustments with a new adjustment for inflation and supply chain issues and additional ECL on loans that migrated from Stage 2 and Stage 3.
- Stage 2 exposure and ECL reduced reflecting positive portfolio performance which lowered PDs. The effect of stage moves led to a significant reduction in ECL, and there were further reductions due to a decrease in the economic uncertainty adjustment.
- Flows into Stage 3 increased due to defaults on government scheme lending, but the government guarantee meant this has not led to an increase in ECL.
- The portfolio benefits from cash recoveries post write-off, which are reported as other (P&L only items). Write-off occurs once recovery activity with the customer has been concluded or there are no further recoveries expected, but no later than five years after default.

Commercial & Institutional - property	Stage 1 Financial assets £m	Stage 1 ECL £m	Stage 2 Financial assets £m	Stage 2 ECL £m	Stage 3 Financial assets £m	Stage 3 ECL £m	Total Financial assets £m	Total ECL £m
At 1 January 2022	15,519	14	1,754	48	367	121	17,640	183
Currency translation and other adjustments	8	-	-	-	1	(11)	9	(11)
Inter-Group transfers	(58)	-	(19)	-	-	-	(77)	-
Transfers from Stage 1 to Stage 2	(1,096)	(2)	1,096	2	-	-	-	-
Transfers from Stage 2 to Stage 1	867	16	(867)	(16)	-	-	-	-
Transfers to Stage 3	(17)	-	(110)	(4)	127	4	-	-
Transfers from Stage 3	9	2	8	1	(17)	(3)	-	-
Net re-measurement of ECL on stage transfer		(17)		23		10		16
Changes in risk parameters (model inputs)		8		(4)		3		7
Other changes in net exposure	1,069	3	(283)	(6)	(67)	(2)	719	(5)
Other (P&L only items)	-	(1)	-	-	-	-	-	(1)
Income statement (releases)/charges		(7)		13		11		17
Amounts written-off	-	-	-	-	(12)	(12)	(12)	(12)
Other movements		-		-		(5)		(5)
At 30 June 2022	16,301	24	1,579	44	399	105	18,279	173
Net carrying amount	16,277		1,535		294		18,106	

- There was an uplift in Stage 1 exposure from new and increased lending, partially offset by a net migration of exposure to Stage 2. ECL increased due to an uplift in post model adjustments with a new adjustment for inflation and supply chain issues.
- Stage 2 exposure and ECL reduced reflecting positive portfolio performance which lowered PDs and a reduction in the economic uncertainty adjustment.

Notes

7. Loan impairment provisions continued

Flow statements

Commercial & Institutional - other	Stage 1		Stage 2		Stage 3		Total	
	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m
At 1 January 2022	5,366	5	912	36	27	2	6,305	43
Currency translation and other adjustments	85	-	2	-	1	-	88	-
Inter-Group transfers	60	-	99	4	-	-	159	4
Transfers from Stage 1 to Stage 2	(187)	(1)	187	1	-	-	-	-
Transfers from Stage 2 to Stage 1	570	34	(570)	(34)	-	-	-	-
Transfers to Stage 3	-	-	(47)	-	47	-	-	(0)
Transfers from Stage 3	2	-	-	-	(2)	-	-	-
Net re-measurement of ECL on stage transfer		(31)		6		10		(15)
Changes in risk parameters (model inputs)		(3)		(2)		6		1
Other changes in net exposure	798	1	(379)	(4)	(8)	2	411	(1)
Other (P&L only items)	-	1	-	-	-	(1)	-	-
Income statement (releases)/charges		(32)		-		17		(15)
Amounts written-off	-	-	-	-	-	-	-	-
Other movements		-		-		-		-
At 30 June 2022	6,694	5	204	7	65	20	6,963	32
Net carrying amount	6,689		197		45		6,931	

- There was an uplift in Stage 1 exposure from new and increased lending along with movements in currency translations and an increase from exposures moving from Stage 2. ECL was broadly unchanged as a significant proportion of the ECL that migrated from Stage 2 was released post transfer.
- Stage 2 exposure and ECL reduced reflecting positive portfolio performance which lowered PDs, this led to large exposure transfers to Stage 1 and a significant reduction in ECL.
- Stage 3 exposure increased due to stage transfers. There was also a significant increase in Stage 3 ECL and charge due to two individual cases.

Notes

7. Loan impairment provisions continued

Mortgage LTV distribution by stage

The table below shows gross mortgage lending and related ECL by LTV band. Mortgage lending not within the scope of IFRS 9 ECL reflected portfolios carried at fair value.

	Mortgages						ECL provisions				ECL provisions coverage (2)			
30 June 2022	Stage 1 £m	Stage 2 £m	Stage 3 £m	Not within IFRS 9 ECL scope £m	Total £m	Of which: gross new lending £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total (1) £m	Stage 1 %	Stage 2 %	Stage 3 %	Total %
≤50%	**58,459**	**3,214**	**650**	**50**	**62,373**	**3,110**	**14**	**23**	**67**	**104**	**0.02**	**0.7**	**10.3**	**0.2**
>50% and ≤70%	**67,478**	**3,338**	**502**	**7**	**71,325**	**5,373**	**22**	**27**	**49**	**98**	**0.03**	**0.8**	**9.8**	**0.1**
>70% and ≤80%	**20,161**	**546**	**83**	**1**	**20,791**	**5,246**	**7**	**5**	**10**	**22**	**0.03**	**0.9**	**12.1**	**0.1**
>80% and ≤90%	**7,745**	**81**	**11**	**-**	**7,837**	**3,743**	**3**	**1**	**3**	**7**	**0.04**	**1.2**	**27.3**	**0.1**
>90% and ≤100%	**1,179**	**18**	**6**	**-**	**1,203**	**892**	**-**	**-**	**3**	**3**	**-**	**-**	**50.0**	**0.3**
>100%	**52**	**6**	**6**	**-**	**64**	**2**	**-**	**1**	**3**	**4**	**-**	**16.7**	**50.0**	**6.3**
Total with LTVs	**155,074**	**7,203**	**1,258**	**58**	**163,593**	**18,366**	**46**	**57**	**135**	**238**	**0.03**	**0.8**	**10.7**	**0.2**
Other	**40**	**1**	**1**	**-**	**42**	**-**	**3**	**-**	**1**	**4**	**7.50**	**-**	**100.0**	**9.5**
Total	**155,114**	**7,204**	**1,259**	**58**	**163,635**	**18,366**	**49**	**57**	**136**	**242**	**0.03**	**0.8**	**10.8**	**0.2**
31 December 2021														
≤50%	52,817	3,390	421	-	56,628	5,521	6	42	85	133	-	1.2	20.2	0.2
>50% and ≤70%	64,362	3,919	353	-	68,634	12,024	10	49	56	115	-	1.3	15.9	0.2
>70% and ≤80%	23,260	1,167	72	-	24,499	10,716	3	17	10	30	-	1.5	13.9	0.1
>80% and ≤90%	5,822	236	18	60	6,136	4,846	-	8	3	11	-	3.4	16.7	0.2
>90% and ≤100%	1,080	55	8	-	1,143	1,053	-	5	2	7	-	9.1	25	0.6
>100%	13	17	5	-	35	-	-	2	2	4	-	11.8	40	11.4
Total with LTVs	147,354	8,784	877	60	157,075	34,160	19	123	158	300	-	1.4	18	0.2
Other	10	1	1	-	12	1	-	-	-	-	-	-	-	-
Total	147,364	8,785	878	60	157,087	34,161	19	123	158	300	-	1.4	18	0.2

(1) Excludes a non-material amount of provisions held on relatively small legacy portfolios.
(2) ECL provisions coverage is ECL provisions divided by mortgages.

- ECL coverage rates for each Stage increased through the LTV bands with Retail Banking having only limited exposures in the highest LTV bands. The reduced coverage level in the lower LTV bands reflects the implementation of new IFRS 9 LGD model with a modelling approach that now captures a reduced loss expectation from non-repossession recovery action.
- Continued stable portfolio performance alongside the new IFRS 9 PD and LGD model implementations have resulted in reduced coverage across most LTV bands in Stage 2 and Stage 3. The increased ECL across Stage 1 LTV bands was driven by higher Stage 1 PDs as a result of the new PD model implementation and also the proportionate allocation of the new cost of living post model adjustment to Stage 1.

Notes

8. Provisions for liabilities and charges

	Customer redress (1) £m	Litigation and other regulatory £m	Property £m	Financial commitments and guarantees £m	Other (2) £m	Total £m
At 1 January 2022	298	4	166	63	109	640
Expected credit losses impairment release	-	-	-	(6)	-	(6)
Currency translation and other movements	-	-	-	-	1	1
Charge to income statement	62	1	7	-	31	101
Release to income statement	(15)	-	(2)	-	(17)	(34)
Provisions utilised	(49)	(1)	(11)	-	(40)	(101)
At 30 June 2022	296	4	160	57	84	601

(1) Includes payment protection insurance provision which reflects the estimated cost of PPI redress attributable to claims prior to the Financial Conduct Authority (FCA) complaint deadline of 29 August 2019. All pre-deadline complaints have been processed which removes complaint volume estimation uncertainty from the provision estimate. NWB Group continues to conclude remaining bank-identified closure work and conclude cases with the Financial Ombudsmen Service.

(2) Other materially comprises provisions relating to restructuring costs.

Provisions are liabilities of uncertain timing or amount and are recognised when there is a present obligation as a result of a past event, the outflow of economic benefit is probable and the outflow can be estimated reliably. Any difference between the final outcome and the amounts provided will affect the reported results in the period when the matter is resolved.

9. Dividends

An interim dividend of £993 million was paid to NatWest Holdings Limited (NWH Ltd) during H1 2022 (H1 2021 - nil). The Board of National Westminster Bank Plc has also declared an interim dividend for 2022 of £2.3 billion to be paid to NWH Ltd in H2 2022 (H2 2021- £1.1 billion).

10. Contingent liabilities and commitments

The amounts shown in the table below are intended only to provide an indication of the volume of business outstanding at 30 June 2022. Although NWB Group is exposed to credit risk in the event of non-performance of the obligations undertaken by customers, the amounts shown do not, and are not intended to, provide any indication of NWB Group's expectation of future losses.

	30 June 2022 £m	31 December 2021 £m
Contingent liabilities and commitments		
Guarantees	1,061	796
Other contingent liabilities	1,134	1,193
Standby facilities, credit lines and other commitments	90,864	79,826
	93,059	81,815

Commitments and contingent obligations are subject to NWB Plc's normal credit approval processes.

Indemnity deed

In April 2019, NWM Plc and NWB Plc entered into a cross indemnity agreement for losses incurred within the entities in relation to business transferred to or from the ring-fenced bank under the NatWest Group's structural re-organisation. Under the agreement, NWM Plc is indemnified by NWB Plc against losses relating to the NWB Plc transferring businesses and ringfenced bank obligations and NWB Plc is indemnified by NWM Plc against losses relating to NWM Plc transferring businesses and non-ring-fenced bank obligations with effect from the relevant transfer date.

Notes

11. Litigation and regulatory matters

NWB Plc and its subsidiary and associated undertakings (NWB Group) are party to legal proceedings and involved in regulatory matters, including as the subject of investigations and other regulatory and governmental action (Matters) in the United Kingdom (UK), the United States (US), the European Union (EU) and other jurisdictions.

NWB Group recognises a provision for a liability in relation to these Matters when it is probable that an outflow of economic benefits will be required to settle an obligation resulting from past events, and a reliable estimate can be made of the amount of the obligation.

In many of these Matters, it is not possible to determine whether any loss is probable, or to estimate reliably the amount of any loss, either as a direct consequence of the relevant proceedings and regulatory matters or as a result of adverse impacts or restrictions on NWB Group's reputation, businesses and operations. Numerous legal and factual issues may need to be resolved, including through potentially lengthy discovery and document production exercises and determination of important factual matters, and by addressing novel or unsettled legal questions relevant to the proceedings in question, before a liability can reasonably be estimated for any claim. NWB Group cannot predict if, how, or when such claims will be resolved or what the eventual settlement, damages, 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 situations where NWB Group may pursue an approach that in some instances leads to a settlement agreement. 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 regulatory matters, even for those Matters for which NWB Group believes it has credible defences and should prevail on the merits. The uncertainties inherent in all such Matters affect the amount and timing of any potential outflows for both Matters with respect to which provisions have been established and other contingent liabilities.

It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

The future outflow of resources in respect of any Matter may ultimately prove to be substantially greater than or less than the aggregate provision that NWB Group has recognised. Where (and as far as) liability cannot be reasonably estimated, no provision has been recognised. NWB Group expects that in future periods, additional provisions, settlement amounts and customer redress payments will be necessary, in amounts that are expected to be substantial in some instances. Please refer to Note 8 for information on material provisions.

Material Matters in which NWB Group is currently involved are set out below. We have provided information on the procedural history of certain Matters, where we believe appropriate, to aid the understanding of the Matter.

For a discussion of certain risks associated with NWB Group's litigation and regulatory matters, see the Risk factor relating to legal, regulatory and governmental actions and investigations set out on page 185 of NWB Plc's 2021 Annual Report and Accounts.

Litigation

London Interbank Offered Rate (LIBOR) and other rates litigation

In August 2020, a complaint was filed in the United States District Court for the Northern District of California by several United States consumer borrowers against the USD ICE LIBOR panel banks and their affiliates, alleging that the normal process of setting USD ICE LIBOR amounts to illegal price-fixing, and also that banks in the United States have illegally agreed to use LIBOR as a component of price in variable consumer loans. The NatWest Group defendants are NatWest Group plc, NatWest Markets Plc, NatWest Markets Securities Inc., and NWB Plc. The plaintiffs seek damages and to prevent the enforcement of LIBOR-based instruments through injunction. Defendants have filed a motion to dismiss, which remains pending.

Notes

11. Litigation and regulatory matters continued

Offshoring VAT assessments

HMRC issued protective tax assessments in 2018 against NatWest Group plc totalling £143 million relating to unpaid VAT in respect of the UK branches of two NatWest Group companies registered in India. NatWest Group formally requested reconsideration by HMRC of their assessments, and this process was completed in November 2020. HMRC upheld their original decision and, as a result, NatWest Group plc lodged an appeal with the Tax Tribunal and an application for judicial review with the High Court of Justice of England and Wales, both in December 2020. In order to lodge the appeal with the Tax Tribunal, NatWest Group plc was required to pay the £143 million to HMRC, and payment was made in December 2020. The appeal and the application for judicial review have both been stayed pending resolution of a separate case involving another bank.

US Anti-Terrorism Act litigation

In March 2019, the trial court granted summary judgment in favour of NWB Plc in connection with lawsuits filed in the United States District Court for the Eastern District of New York by a number of US nationals (or their estates, survivors, or heirs) who were victims of terrorist attacks in Israel. In April 2021, the US Court of Appeals affirmed the trial court's judgment in favour of NWB Plc. In September 2021, the plaintiffs filed a petition seeking discretionary review by the United States Supreme Court, and that petition was denied in June 2022, bringing the matter to an end.

Regulatory matters (including investigations and customer redress programmes)

NWB Group's financial condition can be affected by the actions of various governmental and regulatory authorities in the UK, the US, the EU and elsewhere. NWB Group and/or NatWest Group have engaged, and will continue to engage, in discussions with relevant governmental and regulatory authorities, including in the UK, the US, 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, investment advice, business conduct, competition/anti-trust, VAT recovery, anti-bribery, anti-money laundering and sanctions regimes. NWB Group expects government and regulatory intervention in financial services to be high for the foreseeable future, including increased scrutiny from competition and other regulators in the retail and SME business sectors.

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 by NWB Group, remediation of systems and controls, public or private censure, restriction of NWB Group's business activities and/or fines. Any of the events or circumstances mentioned in this paragraph or below could have a material adverse effect on NWB Group, its business, authorisations and licences, reputation, results of operations or the price of securities issued by it, or lead to material additional provisions being taken.

NWB Group is co-operating fully with the matters described below.

Investment advice review

In October 2019, the FCA notified NatWest Group of its intention to appoint a Skilled Person under section 166 of the Financial Services and Markets Act 2000 to conduct a review of whether NatWest Group's past business review of investment advice provided during 2010 to 2015 was subject to appropriate governance and accountability and led to appropriate customer outcomes. The Skilled Person's review has concluded and, after discussion with the FCA, NatWest Group is now conducting additional review / remediation work.

Notes

12. Related party transactions

UK Government

The UK Government and bodies controlled or jointly controlled by the UK Government and bodies over which it has significant influence are related parties of NWB Group. NWB Group's other transactions with the UK Government include the payment of taxes, principally UK corporation tax and value added tax; national insurance contributions; local authority rates; and regulatory fees and levies (including the bank levy and FSCS levy).

Bank of England facilities

In the ordinary course of business, NWB Group may from time to time access market-wide facilities provided by the Bank of England.

Other related parties

(a) In their roles as providers of finance, NWB Group companies provide development and other types of capital support to businesses. In some instances, the investment may extend to ownership or control over 20% or more of the voting rights of the investee company. However, these investments are not considered to give rise to transactions of a materiality requiring disclosure under IAS 24.
(b) NWB Group recharges The NatWest Group Pension Fund with the cost of administration services incurred by it. The amounts involved are not material to NWB Group.

Full details of NWB Group's related party transactions for the year ended 31 December 2021 are included in NatWest Bank Plc's 2021 Annual Report and Accounts.

13. Post balance sheet events

Other than as disclosed in this document there have been no significant events between 30 June 2022 and the date of approval of this announcement which would require a change to, or additional disclosure in, the announcement.

14. Date of approval

This announcement was approved by the Board of Directors on 28 July 2022.

Independent review report to National Westminster Bank Plc

Conclusion

We have been engaged by National Westminster Bank Plc ("the Group") to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2022 which comprises of the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement, and related Notes 1 to 14 (together "the condensed consolidated financial statements"). We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2022 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements 2410 (UK) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in Note 1, the annual financial statements of the Group are prepared in accordance with UK adopted International Accounting Standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with UK adopted International Accounting Standard 34, "Interim Financial Reporting".

Conclusions relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that management have inappropriately adopted the going concern basis of accounting or that management have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with the International Standard on Review Engagements 2410 (UK), however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the directors

The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

In preparing the half-yearly financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the review of the financial information

In reviewing the half-yearly report, we are responsible for expressing to the Group a conclusion on the condensed set of financial statements in the half-yearly financial report. Our conclusion, including our Conclusions relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

This report is made solely to the Group in accordance with guidance contained in International Standard on Review Engagements 2410 (UK) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group, for our work, for this report, or for the conclusions we have formed.

Ernst & Young LLP
London, United Kingdom
28 July 2022

NatWest Bank plc Summary Risk Factors
Summary of Principal Risks and Uncertainties

Set out below is a summary of the principal risks and uncertainties for the remaining six months of the financial year which could adversely affect NWB Group. This summary should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties; a fuller description of these and other risk factors is included on pages 167 to 186 of the NatWest Bank Plc 2021 Annual Report and Accounts. Any of the risks identified may have a material adverse effect on NatWest Group's business, operations, financial condition or prospects.

Economic and political risk

- NWB Group faces continued economic and political risks and uncertainty in the UK and global markets, including as a result of high inflation, rising interest rates, supply chain disruption and the Russian invasion of Ukraine.
- The impact of the COVID-19 pandemic and related uncertainties continue to affect the UK, global economies and financial markets and NWB Group's customers, as well as its competitive environment, which may continue to have an adverse effect on NWB Group.
- Continuing uncertainty regarding the effects and extent of the UK's post Brexit divergence from EU laws and regulation, and NWB Group's post Brexit EU operating model may continue to adversely affect NWB Group and its operating environment.
- Changes in interest rates have significantly affected and will continue to affect NWB Group's business and results.
- Changes in foreign currency exchange rates may affect NWB Group's results and financial position.
- HM Treasury (or UKGI on its behalf) could exercise a significant degree of influence over NatWest Group and NWB Group is controlled by NatWest Group.

Strategic risk

- NatWest Group (NWB Plc's parent company) continues to implement its purpose-led strategy, which carries significant execution and operational risks and may not achieve its stated aims and targeted outcomes.
- Trends relating to the COVID-19 pandemic may adversely affect NWB Group's strategy and impair its ability to meet its targets and strategic objectives.

Financial resilience risk

- NWB Group may not meet the targets it communicates or generate sustainable returns.
- The impact of the COVID-19 pandemic on the credit quality of NWB Group's counterparties may negatively impact NWB Group.
- NWB Group has significant exposure to counterparty and borrower risk.
- NWB Group operates in markets that are highly competitive, with increasing competitive pressures and technology disruption.
- NWB Group may not meet the prudential regulatory requirements for capital and MREL, or manage its capital effectively, which could trigger the execution of certain management actions or recovery options.
- NWB Group may not be able to adequately access sources of liquidity and funding.
- NWB Group is reliant on NatWest Group for capital and funding support, and is substantially reliant on NatWest Group plc's ability to issue sufficient amounts of capital and external MREL securities and downstream the proceeds to NWB Group. The inability to do so may adversely affect NWB Group.
- Any reduction in the credit rating and/or outlooks assigned to NatWest Group plc, any of its subsidiaries (including NWB Plc or other NWB Group subsidiaries) or any of their respective debt securities could adversely affect the availability of funding for NWB Group, reduce its liquidity position and increase the cost of funding.
- NWB Group may be adversely affected if NatWest Group fails to meet the requirements of regulatory stress tests.
- NWB Group could incur losses or be required to maintain higher levels of capital as a result of limitations or failure of various models.
- NWB Group's financial statements are sensitive to the underlying accounting policies, judgments, estimates and assumptions.
- Changes in accounting standards may materially impact NWB Group's financial results.
- NatWest Group (including NWB Group) may become subject to the application of UK statutory stabilisation or resolution powers which may result in, among other actions, the write-down or conversion of NWB Group's Eligible Liabilities.
- NatWest Group is subject to Bank of England and PRA oversight in respect of resolution. Following submission of a biennial assessment of NatWest Group's preparations for resolution to the PRA, the Bank of England has not identified any shortcomings, deficiencies or substantive impediments associated with NatWest Group's ability to achieve resolvability outcomes, but has highlighted two areas as requiring further enhancements. NatWest Group, including NWB Group, could be adversely affected should future Bank of England assessments deem NatWest Group's preparations to be inadequate.

NatWest Bank plc Summary Risk Factors
Summary of Principal Risks and Uncertainties continued

Climate and sustainability-related risks

- NWB Group and its customers, suppliers and counterparties face significant climate-related risks, including in transitioning to a net zero economy, which may adversely impact NWB Group.
- NatWest Group's purpose-led strategy includes climate change as one its three areas of focus and, following the passing of a 'Say on Climate' by NatWest Group's shareholders in April 2022, NatWest Group is required to publish an initial climate transition plan in 2023. NatWest Group's climate strategy and transition plan entails significant execution and reputational risk and is unlikely to be achieved without internal and external actions including significant government policy, technology and customer changes.
- Any failure by NWB Group to prepare or execute a credible transition plan or implement effective and compliant climate change resilient systems, controls and procedures could adversely affect NWB Group's reputation or its ability to manage climate-related risks.
- There are significant challenges in relation to climate-related data due to quality and other limitations, lack of standardisation, consistency and incompleteness which amongst other factors contribute to the significant uncertainties inherent in accurately modelling the impact of climate-related risks.
- A failure to adapt NWB Group's business strategy, governance, procedures, systems and controls to manage emerging sustainability-related risks and opportunities may have a material adverse effect on NWB Group, its reputation, business, results of operations and outlook.
- Any reduction in the ESG ratings of NatWest Group (including NWB Group) could have a negative impact on NatWest Group's (including NWB Group) reputation and on investors' risk appetite and customers' willingness to deal with NatWest Group.
- Increasing levels of climate, environmental and sustainability-related laws, regulation and oversight may adversely affect NWB Group's business and expose NWB Group to increased costs of compliance, regulatory sanction and reputational damage.
- NWB Group may be subject to potential climate, environmental and other sustainability-related litigation, enforcement proceedings, investigations and conduct risk.

Operational and IT resilience risk

- Operational risks (including reliance on third party suppliers and outsourcing of certain activities) are inherent in NWB Group's businesses.
- NWB Group is subject to increasingly sophisticated and frequent cyberattacks.
- NWB Group operations and strategy are highly dependent on the accuracy and effective use of data.
- NWB Group's operations are highly dependent on its complex IT systems (including those that enable remote working) and any IT failure could adversely affect NWB Group.
- Remote working may adversely affect NWB Group's ability to maintain effective internal controls.
- NWB Group relies on attracting, retaining and developing diverse senior management and skilled personnel, and is required to maintain good employee relations.
- A failure in NWB Group's risk management framework could adversely affect NWB Group, including its ability to achieve its strategic objectives.
- NWB Group's operations are subject to inherent reputational risk.

Legal, regulatory and conduct risk

- NWB Group's businesses are subject to substantial regulation and oversight, which are constantly evolving and may adversely affect NWB Group.
- NWB Group is exposed to the risks of various litigation matters, regulatory and governmental actions and investigations as well as remedial undertakings, including conduct-related reviews, anti-money laundering and redress projects, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on NWB Group.
- NWB Group may not effectively manage the transition of LIBOR and other IBOR rates to alternative risk free rates.
- Changes in tax legislation or failure to generate future taxable profits may impact the recoverability of certain deferred tax assets recognised by NWB Group.

Statement of directors' responsibilities

We, the directors listed below, confirm that to the best of our knowledge:

- the condensed financial statements have been prepared in accordance with UK adopted IAS 34 'Interim Financial Reporting';
- the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the Board

Howard Davies Chairman	Alison Rose-Slade Chief Executive Officer	Katie Murray Chief Financial Officer

28 July 2022

Board of directors

Chairman
Howard Davies

Executive directors
Alison Rose-Slade
Katie Murray

Non-executive directors
Francesca Barnes
Graham Beale
Ian Cormack
Patrick Flynn
Morten Friis
Robert Gillespie
Yasmin Jetha
Mike Rogers
Mark Seligman
Lena Wilson

Presentation of information

National Westminster Bank Plc ('NWB Plc' or NatWest Bank Plc) is a wholly-owned subsidiary of NatWest Holdings Limited ('NWH Ltd' or 'the intermediate holding company'). The term 'NWB Group' refers to NWB Plc and its subsidiary and associated undertakings. The term 'NWH Group' refers to NWH Ltd and its subsidiary and associated undertakings. NatWest Group plc is 'the ultimate holding company'. The term 'NatWest Group' refers to NatWest Group plc and its subsidiary and associated undertakings.

NWB Plc publishes its financial statements in pounds sterling ('£' or 'sterling'). The abbreviations '£m' and '£bn' represent millions and thousands of millions of pounds sterling, respectively, and references to 'pence' or 'p' represent pence where the amounts are denominated in pounds sterling ('GBP'). Reference to 'dollars' or '$' are to United States of America ('US') dollars. The abbreviations '$m' and '$bn' represent millions and thousands of millions of dollars, respectively. The abbreviation '€' represents the 'euro', and the abbreviations '€m' and '€bn' represent millions and thousands of millions of euros, respectively.

Statutory accounts

Financial information contained in this document does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006 ("the Act"). The statutory accounts for the year ended 31 December 2021 have been filed with the Registrar of Companies. The report of the auditor on those statutory accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Act.

Contact

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Forward-looking statements

This document contains 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 NWB Group's future economic results, business plans and current strategies. In particular, this document may include forward-looking statements relating to NWB Group 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 NatWest Group's purpose-led strategy, NWB Group's ESG and climate related targets, its access to adequate sources of liquidity and funding, increasing competition from new incumbents and disruptive technologies, the impact of the COVID-19 pandemic, 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 alternative risk free rates and NWB 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, legislative, political, fiscal and regulatory developments, accounting standards, competitive conditions, technological developments, interest and exchange rate fluctuations and general economic and political conditions, the impact of climate related risks and the transitioning to a net zero economy and the impact of the COVID-19 pandemic. These and other factors, risks and uncertainties that may impact any forward-looking statement or the NWB Group's actual results are discussed in the NWB Plc's UK 2021 Annual Report and Accounts (ARA) and NWB Plc's Interim Results for H1 2022. The forward-looking statements contained in this document speak only as of the date of this document and NWB 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.

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