Interim Results 2021

National Westminster Bank Plc
Interim results for the period ending 30 June 2021

NatWest Bank Group (NWB Group) reported an attributable profit for the period of £1,639 million, compared to an attributable loss of £121 million in H1 2020.

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 £438 million reflects improved economic indicators across our lending books, and default levels remain low.

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.

Financial performance in a challenging environment

- Attributable profit for the period was £1,639 million compared with an attributable loss of £121 million in H1 2020, primarily reflecting the comparative impact of net impairment releases in H1 2021 due to an improved economic outlook.
- NWB Group total income decreased by £73 million to £4,446 million compared with £4,519 million in H1 2020, primarily driven by the lower yield curve and a loss incurred upon partial redemption of debt instruments in the period, partially offset by balance sheet growth.
- Operating expenses increased by £42 million to £2,852 million, compared with £2,810 million in H1 2020 principally due to a prior year H1 2020 PPI provision release of £160 million. There has been an overall increase in staff costs due to an increase in forecast pension obligations and the release of a restructuring provision in H1 2020. This is partially offset by reduced strategic costs due to planned property exit and technology spend provisions in H1 2020. The cost:income ratio has increased from 62% to 64%.
- A net impairment release of £438 million in H1 2021 is £2,351 million favourable compared with a net impairment charge of £1,913 million in H1 2020, reflective of non-default portfolio releases resulting from an improved economic outlook. Stage 3 defaults remain at a low level.

Robust balance sheet with strong capital levels

- Balance sheet trends continue to reflect our customers' responses to economic uncertainty resulting from COVID-19. Total assets increased by £19.8 billion to £409.3 billion compared with £389.5 billion at 31 December 2020.
- Net loans to customers increased by £7.0 billion driven by continued strong growth in retail mortgages, partially offset by a decline in commercial lending due to targeted sector reductions and net repayments of revolving credit facility (RCF) balances. Reverse repo balances also decreased.
- Customer deposits increased by £27.7 billion as continued UK Government initiatives combined with restrictions resulted in lower customer spend and increased savings.
- The CET1 ratio decreased to 17.1% from 17.8% at 31 December 2020. This is due to a £0.7 billion decrease in CET1 capital and a £1.0 billion decrease in RWAs. The CET1 decrease reflects a £1.6 billion foreseeable dividend, £0.2 billion foreseeable charges and a decrease of £0.3 billion due to transitional arrangements on expected credit losses, which offset the impact of impairment releases. This is partially offset by the attributable profit in the period.
- Total RWAs decreased by £1.0 billion in the period mainly reflecting a £1.1 billion reduction in credit risk. The overall reduction in credit risk RWAs was largely due to repayments and expired facilities of c.£2 billion in Commercial Banking as well as a reduction of c.£0.6 billion due to improved risk metrics for key customer portfolios in Retail Banking. The transfer of the Ulster Bank Limited business resulted in offsetting increases in credit risk RWAs of c.£1.6 billion.

Financial review

Income statement

The following tables provide a segmental analysis[1] of operating profit/(loss) by the main income statement captions and a note of the key performance metrics and ratios.

	Retail Banking £m	Private Banking £m	Commercial Banking £m	Central items & other £m	Half year ended 30 June 2021 £m	Half year ended 30 June 2020 £m
Net interest income	1,707	223	1,097	(70)	2,957	2,879
Non-interest income	153	125	501	710	1,489	1,640
Total income	1,860	348	1,598	640	4,446	4,519
Operating expenses	(915)	(240)	(900)	(797)	(2,852)	(2,810)
Profit/(loss) before impairment releases/(losses)	945	108	698	(157)	1,594	1,709
Impairment releases/(losses)	40	26	373	(1)	438	(1,913)
Operating profit/(loss)	985	134	1,071	(158)	2,032	(204)
Tax (charge)/credit					(333)	171
Profit/(loss) for period					1,699	(33)
Attributable to:						
Ordinary shareholders					1,639	(121)
Paid-in equity holders					58	86
Non-controlling interests					2	2
Notable items within operating expenses						
Strategic costs					172	325
Litigation and conduct costs					45	(143)

Key metrics and ratios	Half year ended 30 June 2021	Half year ended 30 June 2020
Cost:income ratio (%) (2)	64.1	62.2
Loan impairment expected credit loss rate (bps) (3)	(31)	145

	As at 30 June 2021	As at 31 December 2020
CET1 ratio (%)	17.1	17.8
CRR leverage ratio (%)	4.2	4.7
Risk weighted assets (RWAs) (£bn)	85.9	86.9

Notes:
(1) The segments presented are those which relate to NatWest Bank Group not NatWest Group.
(2) Operating expenses divided by total income.
(3) Refer to Note 9 for further details.

Total income decreased by £73 million, or 2%, to £4,446 million compared with £4,519 million in H1 2020.

Net interest income increased by £78 million to £2,957 million, compared with £2,879 million in H1 2020, reflecting strong growth in mortgages, partly offset by the lower yield curve.

Non-interest income decreased by £151 million to £1,489 million, compared with £1,640 million in H1 2020.

- Net fees and commissions income increased by £19 million, or 3%, to £716 million. One-off intra-group fees received were partially offset by subdued transactional banking activity and reduced fee income due to regulatory changes.
- Other operating income decreased by £170 million to £773 million, compared with £943 million in H1 2020, reflecting:
- losses of £97 million incurred upon partial redemption of debt instruments in the period; and
- a decrease of £111 million in gains from bond and other asset disposals, to £8 million in H1 2021; offset by
- £39 million higher income from hedging activities, reflecting interest rate volatility.

Financial review continued

Operating expenses increased by £42 million, or 1%, to £2,852 million, compared with £2,810 million in H1 2020, reflecting:

- a PPI provision release of £160 million in H1 2020; offset by
- a reduction of £153 million in strategic costs due to comparative charges for planned property exits and technology spend in H1 2020; and
- Additional staff costs of £50 million due to an increase in forecast pension obligations, and the release of a restructuring provision in H1 2020.

A net impairment release of £438 million for the first half of 2021 is reflective of non-default portfolio releases due to the improved economic outlook. Stage 3 defaults remain at a low level. Total impairment provisions decreased by £0.6 billion to £3.0 billion in H1 2021, which resulted in a reduction in the ECL coverage ratio from 1.33% at 31 December 2020 to 1.07%.

Business performance summary

Retail Banking

Operating profit was £985 million, compared with £365 million in H1 2020.

- Net interest income increased by £122 million to £1,707 million compared with £1,585 million in H1 2020, reflecting strong growth in mortgages and improved asset margins, partially offset by a low yield curve environment.
- Non-interest income decreased by £51 million to £153 million, compared with £204 million in H1 2020, reflecting a decrease of £25 million in net fees and commissions, due to regulatory changes impacting fee income and lower consumer spending. Income from recharging of Retail Banking shared service costs decreased by £29 million.
- Operating expenses increased by £38 million to £915 million compared with £877 million in H1 2020, primarily driven by the PPI provision release of £160 million in H1 2020, partially offset by reduced strategic costs. Staff costs decreased by £19 million due to a headcount reduction resulting from continued digitalisation and automation.
- A net impairment release of £40 million, compared with a charge of £547 million in H1 2020, reflects ECL releases related to the improved economic outlook and a small release from accounts flowing from Stage 2 back to Stage 1. Stage 3 defaults remain at a low level.
- Net loans to customers - amortised cost increased by £7.1 billion to £159.5 billion, driven by strong mortgage growth of £7.3 billion, partially offset by the continued impact of UK Government restrictions on customer spending and further repayments of unsecured balances.
- Customer deposits increased by £9.6 billion to £148.3 billion, as continued UK Government initiatives combined with restrictions resulted in lower customer spend and increased savings.

Private Banking

Operating profit was £134 million compared with £71 million in H1 2020.

- Net interest income decreased by £15 million to £223 million, compared with £238 million in H1 2020, reflecting lower deposit returns partially offset by strong balance sheet growth.
- Non-interest income decreased by £4 million to £125 million due to a decrease in net fees and commissions.
- Operating expenses remained stable at £240 million, as increased headcount was offset by a litigation provision release of £6 million in H1 2021.
- A net impairment release of £26 million in H1 2021 reflects ECL releases related to the improved economic outlook.
- Net loans to customers increased by £0.9 billion to £17.3 billion reflecting continued strong mortgage lending growth.
- Deposits increased by £2.4 billion to £32.7 billion reflecting strong personal cash inflows as continued UK Government restrictions resulted in lower customer spend and increased savings.

Commercial Banking

Operating profit was £1,071 million, compared with a loss of £636 million in H1 2020.

- Net interest income decreased by £39 million to £1,097 million, compared with £1,136 million in H1 2020, primarily driven by an overall reduction in lending balances and lower yield curve, partially offset by an adjustment on certain specialist leasing contracts.
- Non-interest income decreased by £22 million to £501 million, primarily reflecting a one-off comparative gain on asset sale of £28 million in H1 2020.
- Operating expenses decreased by £105 million to £900 million, reflecting cost reduction actions and lower staff costs.
- A net impairment release of £373 million in H1 2021 mainly reflects ECL releases related to the improved economic outlook, with limited defaults observed in the first half of 2021.
- Net loans to customers decreased by £2.6 billion to £77.0 billion, due to net repayments of revolving credit facilities (RCF) and targeted sector reductions. These were partially offset by a £0.5 billion reduction in loan provisions.
- Customer deposits increased by £4.6 billion to £122.8 billion as customers continued to build and retain liquidity in light of economic uncertainty and the continued impact of UK Government initiatives.

Central items & other

Operating loss was £158 million in H1 2021 compared with an operating loss of £4 million in H1 2020.

- Total income decreased by £64 million primarily due to losses of £97 million incurred on the partial redemption of debt in H1 2021, partially offset by higher Treasury related income.
- Operating expenses increased by £109 million to £797 million, primarily due to additional strategic costs. £669 million of central costs were recovered through service recharges in non-interest income.

A transfer of the Ulster Bank Limited business into its immediate parent National Westminster Bank Plc was completed on 3 May 2021. This reorganisation means the Ulster Bank brand in Northern Ireland has become a trading name of National Westminster Bank Plc (NWB Plc).

Financial review
Business performance summary continued
Balance sheet key metrics and commentary

	30 June 2021 £bn	31 December 2020 £bn
Total assets	**409.3**	389.5
Third party assets (1)	**406.9**	386.2
Loans to customers - amortised cost	**278.6**	271.6
Customer deposits	**321.3**	293.6
Loan:deposit ratio (2)	**87%**	92%

Notes:
(1) Total assets less amounts due from holding companies and fellow subsidiaries.
(2) Loans to customers held at amortised cost divided by customer deposits.

Customer lending and deposits
Customer lending increased by £7.0 billion to £278.6 billion, compared with £271.6 billion, driven by:
- £8.1 billion mortgage growth as a result of strong gross new lending, partially offset by redemptions; and
- £1.5 billion net increase in relation to Treasury repo activity;
- Partially offset by £2.8 billion decrease in commercial lending, impacted by targeted sector reductions and RCF repayments.

Customer deposits increased by £27.7 billion to £321.3 billion primarily reflecting:
- £16.0 billion increase in demand and savings deposits, as customers continued to build and retain liquidity in light of economic uncertainty and the continued impact of UK Government initiatives; and
- £11.5 billion increase in repos facing customers.

Other movements including lending and liquidity
- Cash and balances at central banks increased by £16.4 billion, reflecting a £15.7 billion increase due to customer funding surplus and £9.2 billion increase resulting from liquidity and debt portfolio optimisation activity. This was partially offset by a £5.0 billion repayment of amounts drawn on the Term Funding Scheme, and £2.8 billion settlement for acquisition of the Metro Bank loan portfolio.
- Other financial assets decreased by £3.1 billion to £34.9 billion, primarily reflecting bond maturities of £1.7 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 £7.0 billion to £7.8 billion mainly driven by a £5.0 billion repayment of balances drawn on the Term Funding Scheme facility and a £2.8 billion decrease in repo balances.
- Amounts due to holding companies and fellow subsidiaries increased by £3.8 billion to £41.4 billion due to a debt issuance.
- Derivatives (liabilities) decreased by £2.0 billion driven by interest rate changes and sterling FX rate appreciation.
- Other financial liabilities decreased by £3.4 billion primarily due to settlement of amounts payable to Metro Bank for the acquisition of its mortgage book.
- Owners' equity increased by £1.2 billion, primarily reflecting the profit for the period.

Financial review

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 2021	31 December 2020
Capital adequacy ratios	**%**	**%**
CET1 (1)	**17.1**	17.8
Tier 1	**19.6**	20.2
Total	**23.0**	23.9

Capital	**£m**	£m
CET1	**14,713**	15,424
Tier 1	**16,821**	17,590
Total	**19,779**	20,765

Risk-weighted assets		
Credit risk	**72,353**	73,445
Counterparty credit risk	**621**	576
Market risk	**44**	18
Operational risk	**12,874**	12,843
Total RWAs	**85,892**	86,882

Leverage		
Tier 1 capital (£m)	**16,821**	17,590
Leverage exposure (£m) (2)	**401,880**	376,527
CRR leverage ratio (%) (1)	**4.2**	4.7

Notes:

(1) Includes an IFRS 9 transitional adjustment of £0.8 billion (31 December 2020 - £1.0 billion). Excluding this adjustment, the CET1 ratio would be 16.3% (31 December 2020 - 16.6%) and the leverage ratio would be 4.0% (31 December 2020 - 4.4%).

(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.

Key points

- The CET1 ratio decreased to 17.1% from 17.8% due to a £0.7 billion decrease in CET1 capital and a £1.0 billion decrease in RWAs. The CET1 decrease reflects a £1.6 billion foreseeable dividend, £0.2 billion foreseeable charges and a decrease of £0.3 billion due to transitional arrangements on expected credit losses, which offset the impact of impairment releases. This is partially offset by the attributable profit in the period.
- NWB Plc issued £1.0 billion internal subordinated Tier 2 Notes in May 2021. This was offset by the £1.0 billion partial redemption of internal subordinated Tier 2 Notes.
- Total RWAs decreased by £1.0 billion in the period mainly reflecting a £1.1 billion reduction in credit risk. The overall reduction in credit risk RWAs was largely due to repayments and expired facilities of c.£2 billion in Commercial Banking as well as a reduction of c.£0.6 billion due to improved risk metrics for key customer portfolios in Retail Banking. The transfer of the Ulster Bank Limited business resulted in offsetting increases in credit risk RWAs of c.£1.6 billion.
- The leverage ratio has decreased to 4.2% from 4.7% as a result of the increase in balance sheet assets, predominantly in cash and balances at central banks, in addition to a decrease in Tier 1 capital.

Condensed consolidated income statement for the half year ended 30 June 2021 (unaudited)

	Half year ended	
	30 June 2021 £m	30 June 2020 £m
Interest receivable	**3,326**	3,518
Interest payable	**(369)**	(639)
Net interest income	**2,957**	2,879
Fees and commissions receivable	**895**	845
Fees and commissions payable	**(179)**	(148)
Other operating income	**773**	943
Non-interest income	**1,489**	1,640
Total income	**4,446**	4,519
Staff costs	**(1,433)**	(1,367)
Premises and equipment	**(434)**	(544)
Other administrative expenses	**(597)**	(485)
Depreciation and amortisation	**(388)**	(414)
Operating expenses	**(2,852)**	(2,810)
Profit before impairment releases/(losses)	**1,594**	1,709
Impairment releases/(losses)	**438**	(1,913)
Operating profit/(loss) before tax	**2,032**	(204)
Tax (charge)/credit	**(333)**	171
Profit/(loss) for the period	**1,699**	(33)
Attributable to:		
Ordinary shareholders	**1,639**	(121)
Paid-in equity holders	**58**	86
Non-controlling interests	**2**	2
	1,699	(33)

Condensed consolidated statement of comprehensive income for the half year ended 30 June 2021 (unaudited)

	Half year ended	
	30 June 2021 £m	30 June 2020 £m
Profit/(loss) for the period	**1,699**	(33)
Items that do not qualify for reclassification		
Remeasurement of retirement benefit schemes (1)	**(518)**	(34)
Tax	**153**	25
	(365)	(9)
Items that do qualify for reclassification		
FVOCI financial assets	**(124)**	(105)
Cash flow hedges	**127**	(247)
Currency translation	**(12)**	15
Tax	**(10)**	90
	(19)	(247)
Other comprehensive loss after tax	**(384)**	(256)
Total comprehensive income/(loss) for the period	**1,315**	(289)
Attributable to:		
Ordinary shareholders	**1,254**	(377)
Paid-in equity holders	**58**	86
Non-controlling interests	**3**	2
	1,315	(289)

Note:
(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 2021 (unaudited)

	30 June 2021 £m	31 December 2020 £m
Assets		
Cash and balances at central banks	**79,359**	62,983
Derivatives	**2,616**	3,288
Loans to banks - amortised cost	**4,266**	3,344
Loans to customers - amortised cost	**278,612**	271,581
Amounts due from holding companies and fellow subsidiaries	**2,442**	3,305
Other financial assets	**34,906**	37,995
Other assets	**7,148**	7,043
Total assets	**409,349**	389,539
Liabilities		
Bank deposits	**7,848**	14,871
Customer deposits	**321,289**	293,605
Amounts due to holding companies and fellow subsidiaries	**41,416**	37,559
Derivatives	**4,529**	6,552
Other financial liabilities	**6,996**	10,383
Subordinated liabilities	**1,000**	1,230
Notes in circulation	**907**	1,012
Other liabilities	**4,234**	4,435
Total liabilities	**388,219**	369,647
Equity		
Owners' equity	**21,117**	19,882
Non-controlling interests	**13**	10
Total equity	**21,130**	19,892
Total liabilities and equity	**409,349**	389,539

Condensed consolidated statement of changes in equity for the half year ended 30 June 2021 (unaudited)

	Half year ended	
	30 June 2021 £m	30 June 2020 £m
Called up share capital - at beginning and end of period	**1,678**	1,678
Paid-in equity - at beginning and end of period	**2,370**	2,370
Share premium - at beginning and end of period	**2,225**	2,225
Merger reserve - at beginning of period	**9**	167
Amortisation	**2**	(70)
At end of period	**11**	97
FVOCI reserve - at beginning of period	**280**	250
Unrealised (losses)/gains	**(99)**	5
Realised gains	**(25)**	(110)
Tax	**19**	24
At end of period	**175**	169
Cash flow hedging reserve - at beginning of period	**(133)**	27
Amount recognised in equity	**65**	(250)
Amount transferred from equity to earnings	**62**	3
Tax	**(29)**	66
At end of period	**(35)**	(154)
Foreign exchange reserve - at beginning of period	**(63)**	(70)
Retranslation of net assets	**(24)**	20
Foreign currency gains/(losses) on hedges of net assets	**11**	(5)
At end of period	**(76)**	(55)
Capital redemption reserve - at beginning and end of period	**796**	796
Redemption of preference shares	**24**	-
At end of period	**820**	796
Retained earnings - at beginning of period	**12,720**	12,223
Profit/(loss) attributable to ordinary shareholders and other equity owners	**1,697**	(35)
Paid-in equity dividends paid	**(58)**	(86)
Remeasurement of retirement benefit schemes (1)		
- gross	**(518)**	(34)
- tax	**153**	25
Amortisation of merger reserve	**(2)**	70
Redemption of preference shares	**(24)**	-
Share-based payments	**(19)**	(12)
Shares issues under employee share schemes	**-**	(11)
At end of period	**13,949**	12,140
Owners' equity at end of period	**21,117**	19,266
Non-controlling interests - at beginning of period	**10**	6
Currency translation adjustments and other movements	**1**	-
Profit attributable to non-controlling interests	**2**	2
At end of period	**13**	8
Total equity at end of period	**21,130**	19,274
Attributable to:		
Ordinary shareholders	**18,747**	16,896
Paid-in equity holders	**2,370**	2,370
Non-controlling interests	**13**	8
	21,130	19,274

Note:
(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 cash flow statement for the half year ended 30 June 2021 (unaudited)

	Half year ended	
	30 June 2021 £m	30 June 2020 £m
Operating activities		
Operating profit/(loss) before tax	**2,032**	(204)
Adjustments for non-cash items	**2,251**	(1,180)
Net cash flows from trading activities	**4,283**	(1,384)
Changes in operating assets and liabilities	**12,952**	15,827
Net cash flows from operating activities before tax	**17,235**	14,443
Income taxes paid	**(220)**	(194)
Net cash flows from operating activities	**17,015**	14,249
Net cash flows from investing activities	**(1,444)**	1,074
Net cash flows from financing activities	**1,388**	1,139
Effects of exchange rate changes on cash and cash equivalents	**(662)**	985
Net increase in cash and cash equivalents	**16,297**	17,447
Cash and cash equivalents at beginning of period	**68,048**	33,266
Cash and cash equivalents at end of period	**84,345**	50,713

Notes

1. Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and UK adopted IAS 34 'Interim Financial Reporting'. They should be read in conjunction with the NatWest Bank Plc 2020 Annual Report and Accounts which were prepared in accordance with International Financial Reporting Standards in conformity with the requirements of the Companies Act 2006 and with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. NatWest Bank Plc 2021 Annual Report and Accounts will be prepared in accordance with UK adopted International Financial Reporting Standards.

Going concern

Having reviewed NatWest Bank Group's forecasts, projections, the potential impact of COVID-19, and other relevant evidence, the directors have a reasonable expectation that NatWest Bank Group will continue in operational existence for a period of not less than twelve months. Accordingly, the results for the period ended 30 June 2021 have been prepared on a going concern basis.

2. Accounting policies

NatWest Bank Group's principal accounting policies are as set out on pages 95 to 99 of the NatWest Bank Plc 2020 Annual Report and Accounts. Changes to accounting policies from 1 January 2021 had no material effect on NatWest Bank Plc's accounts.

Critical accounting policies and key sources of estimation uncertainty

The judgements and assumptions that are considered to be the most important to the portrayal of NWB 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 judgements are referenced on page 99 of the NatWest Bank Plc 2020 Annual Report and Accounts. Estimation uncertainty has been affected by the COVID-19 pandemic. Management's consideration of this source of uncertainty is outlined in the relevant sections of the NatWest Bank Plc 2020 Annual Report and Accounts, including the ECL estimate for the period in the Risk and capital management section contained in the NatWest Bank Plc 2020 Annual Report and Accounts.

Information used for significant estimates

The COVID-19 pandemic has continued to cause significant economic and social disruption. Key financial estimates are based on a range of anticipated future economic conditions described by internally developed scenarios. Deferred tax and expected credit losses are highly sensitive to reasonably possible changes in those anticipated conditions. Other reasonably possible assumptions about the future include a prolonged financial effect of the COVID-19 pandemic on the economy of the UK and other countries. Changes in judgements and assumptions could result in a material adjustment to those estimates in the next reporting periods. Refer to the NatWest Bank Plc Risk factors section in the 2020 Annual Report and Accounts.

3. Operating expenses

	Half year ended	
	30 June 2021 £m	30 June 2020 £m
Wages, salaries and other staff costs	**1,077**	1,019
Temporary and contract costs	**97**	119
Social security costs	**119**	108
Pension costs	**140**	121
- defined benefit schemes	**85**	75
- defined contribution schemes	**55**	46
Staff costs	**1,433**	1,367
Premises and equipment (1)	**434**	544
Depreciation and amortisation (2)	**388**	414
Other administrative expenses (3)	**597**	485
Administrative expenses	**1,419**	1,443
Operating expenses	**2,852**	2,810

Notes:

(1) 30 June 2021 includes costs of £10 million including accelerated depreciation of £7 million (30 June 2020 - £91 million including £40 million accelerated depreciation) in relation to the planned reduction of the property portfolio (30 June 2021 – freehold £1 million; leasehold £9 million; 30 June 2020 - leasehold £91 million).

(2) 30 June 2021 includes a £17 million charge relating to the reduction in property portfolio, leasehold £14 million and freehold £3 million (30 June 2020 - £41 million charge, leasehold £41 million).

(3) Includes litigation and conduct costs.

Notes

4. Segmental analysis

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

Analysis of operating profit/(loss)

The following table provides a segmental analysis of operating profit/(loss) by main income statement captions.

Half year ended 30 June 2021	Retail Banking £m	Private Banking £m	Commercial Banking £m	Central items & other £m	Total £m
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**
Operating expenses	**(915)**	**(240)**	**(900)**	**(797)**	**(2,852)**
Impairment releases/(losses)	**40**	**26**	**373**	**(1)**	**438**
Operating profit/(loss)	**985**	**134**	**1,071**	**(158)**	**2,032**
Half year ended 30 June 2020					
Net interest income	1,585	238	1,136	(80)	2,879
Net fees and commissions	162	119	419	(3)	697
Other non-interest income	42	10	104	787	943
Total income	1,789	367	1,659	704	4,519
Operating expenses	(877)	(240)	(1,005)	(688)	(2,810)
Impairment (losses)/releases	(547)	(56)	(1,290)	(20)	(1,913)
Operating profit/(loss)	365	71	(636)	(4)	(204)

Total revenue [1]

Half year ended 30 June 2021	Retail Banking £m	Private Banking £m	Commercial Banking £m	Central items & other £m	Total £m
External	**2,273**	**340**	**1,504**	**877**	**4,994**
Inter-segmental	**56**	**76**	**73**	**(205)**	**-**
Total	**2,329**	**416**	**1,577**	**672**	**4,994**
Half year ended 30 June 2020					
External	2,318	338	1,568	1,082	5,306
Inter-segmental	17	115	108	(240)	-
Total	2,335	453	1,676	842	5,306

Note:
(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 2021	Retail Banking £m	Private Banking £m	Commercial Banking £m	Central items & other £m	Total £m
Fees and commissions receivable					
- Lending and financing	**5**	**4**	**191**	**-**	**200**
- Payment services	**117**	**15**	**197**	**-**	**329**
- Credit and debit card fees	**120**	**4**	**52**	**-**	**176**
- Investment management, trustee and fiduciary services	**1**	**103**	**-**	**-**	**104**
- Other	**25**	**20**	**84**	**(43)**	**86**
Total	**268**	**146**	**524**	**(43)**	**895**
Fees and commissions payable	**(131)**	**(32)**	**(56)**	**40**	**(179)**
Net fees and commissions	**137**	**114**	**468**	**(3)**	**716**
Half year ended 30 June 2020					
Fees and commissions receivable					
- Lending and financing	30	2	179	-	211
- Payment services	102	14	195	-	311
- Credit and debit card fees	115	4	44	-	163
- Investment management, trustee and fiduciary services	1	102	-	-	103
- Other	26	18	48	(35)	57
Total	274	140	466	(35)	845
Fees and commissions payable	(112)	(21)	(47)	32	(148)
Net fees and commissions	162	119	419	(3)	697

Total assets and liabilities

30 June 2021	Retail Banking £m	Private Banking £m	Commercial Banking £m	Central items & other £m	Total £m
Assets	**163,078**	**18,042**	**81,895**	**146,334**	**409,349**
Liabilities	**149,877**	**32,771**	**131,174**	**74,397**	**388,219**
31 December 2020					
Assets	156,829	17,113	84,629	130,968	389,539
Liabilities	143,638	30,392	125,635	69,982	369,647

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% (2020 - 19%) as analysed below:

	Half year ended	
	30 June 2021 £m	30 June 2020 £m
Profit/(loss) before tax	**2,032**	(204)
Expected tax (charge)/credit	**(386)**	39
Foreign profits taxed at other rates	**(4)**	(3)
Items not allowed for tax:		
- losses on disposals and write-downs	**-**	(1)
- UK bank levy	**(7)**	(10)
- regulatory and legal actions	**(5)**	28
- other disallowable items	**(10)**	(20)
Non-taxable items	**1**	8
Banking surcharge	**(145)**	31
Tax on paid-in equity	**17**	15
UK tax rate change impact	**211**	83
Adjustments in respect of prior periods	**(5)**	1
Actual tax (charge)/credit	**(333)**	171

At 30 June 2021, NWB Group has recognised a deferred tax asset of £1,470 million (31 December 2020 - £1,289 million) and a deferred tax liability of £215 million (31 December 2020 - £166 million). These include amounts recognised in respect of UK trading losses of £700 million (31 December 2020 - £600 million). Under UK tax legislation, these UK losses can be carried forward indefinitely. NWB Group has considered the carrying value of this asset as at 30 June 2021 and concluded that it is recoverable based on future profit projections.

It was announced in the UK Government's Budget on 3 March 2021 that the main UK corporation tax rate will increase from 19% to 25% from 1 April 2023. This legislative change was enacted on 10 June 2021. 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. As a result, the net deferred tax asset position in NWB Group has increased by £213 million, with a £211 million credit included in the income statement (refer to reconciling item above), and a £2 million credit included in other comprehensive income. There is an ongoing HM Treasury review of the bank surcharge rate to ensure that the combined rate of corporation tax applicable to banking entities remains competitive.

Notes

6. Financial instruments

Financial instruments: classification

The following tables analyse NWB Group's financial assets and liabilities in accordance with the categories of financial instruments on an IFRS 9 basis. Assets and liabilities outside the scope of IFRS 9 are shown within other assets and other liabilities.

Assets	MFVTPL £m	FVOCI £m	Amortised cost £m	Other assets £m	Total £m
Cash and balances at central banks			**79,359**		**79,359**
Derivatives (1)	**2,616**				**2,616**
Loans to banks - amortised cost			**4,266**		**4,266**
Loans to customers - amortised cost (2)			**278,612**		**278,612**
Amounts due from holding companies and fellow subsidiaries	**427**		**2,001**	**14**	**2,442**
Other financial assets	**192**	**31,063**	**3,651**		**34,906**
Other assets				**7,148**	**7,148**
30 June 2021	**3,235**	**31,063**	**367,889**	**7,162**	**409,349**
Cash and balances at central banks			62,983		62,983
Derivatives (1)	3,288				3,288
Loans to banks - amortised cost			3,344		3,344
Loans to customers - amortised cost (2)			271,581		271,581
Amounts due from holding companies and fellow subsidiaries	556		2,683	66	3,305
Other financial assets	476	33,853	3,666		37,995
Other assets				7,043	7,043
31 December 2020	4,320	33,853	344,257	7,109	389,539

Liabilities	Held-for-trading £m	Amortised cost £m	Other liabilities £m	Total £m
Bank deposits		**7,848**		**7,848**
Customer deposits		**321,289**		**321,289**
Amounts due to holding companies and fellow subsidiaries		**41,416**	**-**	**41,416**
Derivatives (1)	**4,529**			**4,529**
Other financial liabilities	**147**	**6,849**		**6,996**
Subordinated liabilities		**1,000**		**1,000**
Notes in circulation		**907**		**907**
Other liabilities (3)		**1,468**	**2,766**	**4,234**
30 June 2021	**4,676**	**380,777**	**2,766**	**388,219**
Bank deposits		14,871		14,871
Customer deposits		293,605		293,605
Amounts due to holding companies and fellow subsidiaries		37,558	1	37,559
Derivatives (1)	6,552			6,552
Other financial liabilities	3	10,380		10,383
Subordinated liabilities		1,230		1,230
Notes in circulation		1,012		1,012
Other liabilities (3)		1,509	2,926	4,435
31 December 2020	6,555	360,165	2,927	369,647

Notes:

(1) Includes net hedging derivative assets of £31 million (31 December 2020 – £1 million) and net hedging derivative liabilities of £74 million (31 December 2020 - £173 million).

(2) Includes finance lease receivables of £8,314 million (31 December 2020 - £8,577 million).

(3) Includes lease liabilities of £1,374 million (31 December 2020 - £1,398 million) held at amortised cost.

Notes

6. Financial instruments continued

NWB Group's financial assets and liabilities include:

	30 June 2021 £m	31 December 2020 £m
Reverse repos		
Loans to banks - amortised cost	162	147
Loans to customers - amortised cost	22,361	23,119
Repos		
Bank deposits	3,472	6,270
Customer deposits	16,624	5,167

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

	30 June 2021			31 December 2020		
	Holding companies £m	Fellow subsidiaries £m	Total £m	Holding companies £m	Fellow subsidiaries £m	Total £m
Assets						
Loans to banks - amortised cost	-	1,982	1,982	-	2,663	2,663
Loans to customers - amortised cost	2	17	19	8	12	20
Other financial assets	-	427	427	-	556	556
Other assets	14	-	14	63	3	66
Amounts due from holding companies and fellow subsidiaries	16	2,426	2,442	71	3,234	3,305
Derivatives (1)	7	751	758	83	959	1,042
Liabilities						
Bank deposits	-	23,929	23,929	-	22,722	22,722
Customer deposits	8,581	45	8,626	7,571	48	7,619
MREL instruments issued to NatWest Holdings Limited	5,686	-	5,686	3,908	-	3,908
Subordinated liabilities	3,144	-	3,144	3,309	-	3,309
Other financial liabilities	-	31	31	-	-	-
Other liabilities	-	-	-	-	1	1
Amounts due from holding companies and fellow subsidiaries	17,411	24,005	41,416	14,788	22,771	37,559
Derivatives (1)	105	1,042	1,147	94	1,594	1,688

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

Interest rate benchmark reform

NatWest Group continues to implement its entity-wide IBOR reform programme with the aim of being ready for the various transition events which are expected to occur prior to the cessation of the vast majority of the IBOR benchmark rates at the end of 2021 and of the USD IBOR in 2023.

NatWest Group continues to develop new products across its different segments that reference the new alternative risk-free rates and continues to work with customers to assess their readiness and ability to adopt new products, transition existing products or take the necessary steps to ensure that products can transition at IBOR cessation. A comprehensive review of the effect of IBOR reform on funding, liquidity and risk management has also been conducted and NatWest Group will continue to adapt its key systems, methodologies and processes to meet the requirements of the new risk-free rates. This is expected to be fully implemented over the course of 2021 and by June 2023 for USD IBOR.

NatWest Group expects that the vast majority of non-derivative instruments will transition in H2 2021 or the first reset date of the interest rate after cessation via renegotiation with clients or fallback provisions. Derivatives that are subject to clearing are expected to transition in line with the relevant clearing house transition approaches while other derivatives are expected to transition using the ISDA fallback protocol.

NatWest Group also remains engaged with regulators, standard setters and other market participants on key matters related to the IBOR reform. It is expected that the programme will meet all timelines set by the regulators.

Notes

6. Financial instruments continued

Financial instruments: valuation hierarchy

Disclosures relating to the control environment, valuation techniques and related aspects pertaining to financial instruments measured at fair value are included in NWB Plc's 2020 Annual Report and Accounts. Valuation, sensitivity methodologies and inputs at 30 June 2021 are consistent with those described in Note 11 to the 2020 Annual Report and Accounts.

The tables below show financial instruments carried at fair value on NWB Group's balance sheet by valuation hierarchy - level 1, level 2 and level 3.

	30 June 2021				31 December 2020			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets								
Derivatives	-	2,613	3	2,616	-	3,283	5	3,288
Amounts due from holding companies and fellow subsidiaries	-	427	-	427	-	556	-	556
Other financial assets								
Securities	24,316	6,521	5	30,842	27,707	6,146	-	33,853
Loans	-	363	50	413	-	426	50	476
Total financial assets held at fair value	24,316	9,924	58	34,298	27,707	10,411	55	38,173
Liabilities								
Derivatives	-	4,364	165	4,529	-	6,324	228	6,552
Other financial liabilities								
Deposits	-	147	-	147	-	3	-	3
Total financial liabilities held at fair value	-	4,511	165	4,676	-	6,327	228	6,555

Notes:

(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. Examples include most government agency securities, investment-grade corporate bonds, certain mortgage products, including CLOs, most bank loans, repos and reverse repos, less liquid listed equities, state and municipal obligations, most notes issued, and certain money market securities and 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 cash instruments which trade infrequently, certain syndicated and commercial mortgage loans, certain emerging markets 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. There were no significant transfers between level 1 and level 2.

(3) The determination of an instrument's level cannot be made at a global product level as a single product type can be in more than one level. For example, a single name corporate credit default swap could be in level 2 or level 3 depending on whether the reference counterparty's obligations are liquid or illiquid.

Notes

6. Financial instruments continued

Financial instruments: fair value of financial instruments measured at amortised cost

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

30 June 2021	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	**79.4**					
Loans to banks	**0.1**	**4.2**	**4.2**	**-**	**3.5**	**0.7**
Loans to customers		**278.6**	**276.5**	**-**	**24.8**	**251.7**
Amounts due from holding companies and fellow subsidiaries		**2.0**	**2.0**	**-**	**0.3**	**1.7**
Other financial assets						
Debt securities		**3.4**	**3.4**	**2.1**	**0.9**	**0.4**
Settlement balances	**0.3**					
Financial liabilities						
Bank deposits	**4.1**	**3.7**	**3.7**	**-**	**3.4**	**0.3**
Customer deposits	**264.3**	**57.0**	**57.0**	**-**	**19.9**	**37.1**
Amounts due to holding companies and fellow subsidiaries	**17.4**	**24.0**	**24.2**	**-**	**10.6**	**13.6**
Other financial liabilities						
Debt securities in issue		**6.8**	**6.9**	**-**	**3.0**	**3.9**
Settlement balances	**-**					
Subordinated liabilities		**1.0**	**1.1**	**-**	**1.1**	**-**
Notes in circulation	**0.9**					
31 December 2020						
Financial assets						
Cash and balances at central banks	63.0					
Loans to banks		3.3	3.3	-	2.4	0.9
Loans to customers		271.6	271.1	-	23.3	247.8
Amounts due from holding companies and fellow subsidiaries		2.7	2.7	-	0.3	2.4
Other financial assets						
Debt securities		3.7	3.8	2.2	1.2	0.4
Settlement balances	-					
Financial liabilities						
Bank deposits	3.4	11.5	11.5	-	11.3	0.2
Customer deposits	253.3	40.3	40.4	-	9.2	31.2
Amounts due to holding companies and fellow subsidiaries	16.8	20.8	21.1	-	8.0	13.1
Other financial liabilities						
Debt securities in issue		7.1	7.2		3.1	4.1
Settlement balances	3.3					
Subordinated liabilities		1.2	1.3	-	1.3	-
Notes in circulation	1.0					

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Quoted market values are used where available, otherwise, fair values have been estimated based on discounted expected future cash flows and other valuation techniques. These techniques involve uncertainties and require assumptions and judgements covering prepayments, credit risk and discount rates. Furthermore, there is a wide range of potential valuation techniques. Changes in these assumptions would significantly affect estimated fair values. The fair values reported would not necessarily be realised in an immediate sale or settlement.

Notes

7. Provisions for liabilities and charges

	Customer redress (1) £m	Property £m	Financial commitments and guarantees £m	Other (2) £m	Total £m
At 1 January	**441**	**208**	**106**	**188**	**943**
Expected credit losses impairment release	**-**	**-**	**(13)**	**-**	**(13)**
Charge to income statement	**32**	**26**	**-**	**78**	**136**
Release to income statement	**(3)**	**(22)**	**-**	**(39)**	**(64)**
Provisions utilised	**(165)**	**(13)**	**-**	**(62)**	**(240)**
At 30 June	**305**	**199**	**93**	**165**	**762**

Notes:

(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.

8. Dividends

No ordinary dividend was paid in the period ended 30 June 2021 (H1 2020 – nil).

Notes

9. 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 judgement.

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 property price indices, sterling swap rate
RoI retail mortgages	RoI unemployment rate, European Central Bank base rate, RoI house price index

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

Economic scenarios

There was improvement in the economic outlook for the UK since 31 December 2020, which was reflected in a more optimistic base case scenario as at 30 June 2021. The main drivers of the improvement were as follows:

- Rapid roll-out of the COVID-19 vaccination in the UK and in other developed countries, leading to relaxation of restrictions.
- The success of various government support measures in containing the fallout from lockdown.
- Faster than expected economic recovery, with GDP having made material gains since the lifting of restrictions, and labour and housing markets in particular showing continued signs of resiliency.

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 reflect a range of outcomes for the path of COVID-19 as well as recovery, and the associated effects on labour and asset markets.

The four scenarios were deemed appropriate in capturing the uncertainty in economic forecasts and the non-linearity in outcomes under different scenarios. The scenarios were developed to provide sufficient coverage across potential changes in unemployment, asset price and the degree of permanent damage to the economy, around which there are pronounced levels of uncertainty at this stage.

The tables on the following page provide details of the key economic parameters 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 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

9. Loan impairment provisions continued

Main macroeconomic variables

Five-year summary	30 June 2021 Upside %	Base case %	Downside %	Extreme downside %	31 December 2020 Upside %	Base case %	Downside %	Extreme downside %
UK								
GDP - CAGR	**3.9**	**3.5**	**2.9**	**2.5**	3.6	3.1	2.8	1.3
Unemployment - average	**4.1**	**4.6**	**5.8**	**8.1**	4.4	5.7	7.1	9.7
House price index - total change	**23.4**	**14.2**	**4.9**	**(0.8)**	12.5	7.6	4.4	(19.0)
Bank of England base rate - average	**0.9**	**0.4**	**-**	**(0.5)**	0.2	-	(0.1)	(0.5)
Commercial real estate price - total change	**13.6**	**4.7**	**0.1**	**(8.7)**	4.3	0.7	(12.0)	(31.5)
World GDP - CAGR	**3.8**	**3.5**	**2.7**	**1.8**	3.5	3.4	2.9	2.8
Probability weight	**35.0**	**40.0**	**20.0**	**5.0**	20.0	40.0	30.0	10.0

Note:
(1) The five year period starts at Q1 2021 for 30 June 2021 and Q3 2020 for 31 December 2020.

Annual figures

UK GDP – annual growth

	Upside %	Base case %	Downside %	Extreme downside %
2021	**10.1**	**7.3**	**2.7**	**0.1**
2022	**5.4**	**5.8**	**4.3**	**-**
2023	**1.6**	**1.6**	**4.4**	**7.7**
2024	**1.6**	**1.6**	**2.2**	**3.7**
2025	**1.6**	**1.6**	**1.5**	**1.7**

UK unemployment rate – annual average

	Upside %	Base case %	Downside %	Extreme downside %
2021	**4.7**	**5.3**	**5.4**	**5.9**
2022	**4.3**	**4.8**	**7.0**	**11.8**
2023	**4.0**	**4.5**	**6.5**	**10.4**
2024	**3.8**	**4.5**	**5.4**	**7.1**
2025	**3.8**	**4.3**	**4.8**	**5.2**

UK house price index – four quarter growth

	Upside %	Base case %	Downside %	Extreme downside %
2021	**8.0**	**2.0**	**(2.4)**	**(5.4)**
2022	**1.7**	**0.5**	**(3.0)**	**(27.0)**
2023	**2.8**	**1.9**	**1.3**	**12.2**
2024	**4.8**	**4.8**	**4.8**	**19.5**
2025	**4.0**	**4.0**	**4.0**	**6.2**

UK commercial real estate price – four quarter growth

	Upside %	Base case %	Downside %	Extreme downside %
2021	**7.0**	**(1.4)**	**(8.4)**	**(13.4)**
2022	**2.1**	**2.0**	**(1.3)**	**(18.2)**
2023	**1.7**	**1.7**	**5.8**	**15.7**
2024	**1.3**	**1.3**	**2.3**	**5.4**
2025	**1.2**	**1.2**	**2.3**	**5.1**

Worst points

UK	30 June 2021 Upside %	Base case %	Downside %	Extreme downside %	31 December 2020 Upside %	Base case %	Downside %	Extreme downside %
GDP	**-**	**-**	**-**	**(10.2)**	-	(1.8)	(5.1)	(10.4)
Unemployment rate (peak)	**5.0**	**5.5**	**7.0**	**11.9**	5.9	7.0	9.4	13.9
House price index	**-**	**-**	**(6.1)**	**(33.1)**	-	(3.6)	(11.2)	(32.0)
Commercial real estate price	**-**	**(2.1)**	**(14.1)**	**(33.1)**	(3.4)	(10.1)	(28.9)	(40.4)

Note:
(1) For the unemployment rate, the figures show the peak levels between 2021 and 2026 for 30 June 2021, and between 2020 and 2025 for 31 December 2020. For the other parameters, the figures show falls relative to the starting periods mentioned under the five-year summary table above.

Notes

9. Loan impairment provisions continued

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 impact of COVID-19 and the range of recovery paths necessitates a change of approach to assigning probability weights from that used in recent updates. Prior to 2020, GDP paths for NWB Group's scenarios were compared against a set of 1,000 model runs, following which a percentile in the distribution was established that most closely corresponded to the scenario.

Instead, NWB Group has subjectively applied probability weights, reflecting expert views within NWB Group. The probability weight assignment was judged to present good coverage to the central scenarios and the potential for a robust recovery on the upside and exceptionally challenging outcomes on the downside. A 35% weighting was applied to the upside scenario, a 40% weighting applied to the base case scenario, a 20% weighting applied to the downside scenario and a 5% weighting applied to the extreme downside scenario. NWB Group assessed the downside risk posed by COVID-19 to be diminishing over the course of 2021, with the vaccination roll-out and positive economic data being observed since the gradual relaxing of lockdown restrictions. NWB Group therefore judged it was appropriate to apply a higher probability to upside-biased scenarios than at December 2020.

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 credit cycle indices (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.

The four economic scenarios are translated into forward-looking projections of 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. that after one to two years into the forecast horizon the CCIs gradually revert to their long-run average of zero.

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

Treatment of COVID-19 relief mechanisms

Use of COVID-19 relief mechanisms (for example, payment holidays, Coronavirus Business Interruption Loan Scheme (CBILS) and Bounce Back Loan Scheme (BBLS)) does not automatically merit identification of significant increase in credit risk (SICR) and trigger a Stage 2 classification in isolation. However, a subset of Personal customers who had accessed payment holiday support, and where their risk profile has been identified as relatively high risk continue to be collectively migrated to Stage 2 (if not already captured by other SICR criteria).

For Wholesale customers, NWB Group continues to provide support, where appropriate, to existing customers. Those who are deemed either (a) to require a prolonged timescale to return to within NWB Group's risk appetite, (b) not to have been viable pre-COVID-19, or (c) not to be able to sustain their debt once COVID-19 is over, will trigger a SICR and, if concessions are sought, be categorised as forborne, in line with regulatory guidance. Payment holiday extensions beyond an aggregate of 12 months in an 18 month period to cover continuing COVID-19 business interruption are categorised as forbearance, including for customers where no other SICR triggers are present.

9. Loan impairment provisions continued

In February 2021, the British Business Bank announced details of Pay As You Grow (PAYG) options for borrowers of BBLS. The scheme options include the extension of lending terms, periods of reduced repayments and six month payment holidays. PAYG options are a feature of BBLS rather than a concession granted by NWB Group. It is therefore not automatically considered significant credit deterioration and a Stage 2 trigger. NWB Group relies on both customer attestations and existing credit monitoring procedures to identify significant financial difficulty. Should signs of financial stress be identified, a review is performed. If credit deterioration is confirmed, existing problem debt management journeys are followed and forbearance (if a concession is granted) is marked in line with existing processes. This will result in Stage 2 transfer.

Model monitoring and enhancement

The abrupt and prolonged interruption of a wide range of economic activities due to COVID-19 and the subsequent government interventions to support businesses and individuals, has resulted in patterns in the data of key economic loss drivers and loss outcomes, that are markedly different from those that NWB Group's models have been built on. To account for these structural changes, model adjustments have been applied and model changes have been implemented.

All in-model adjustments described have been applied by correcting the PD and LGD estimates within the core ECL calculation process and therefore consistently and systematically inform SICR identification and ECL measurement.

Government support

Most notably as a result of various government support measures, model-projected default rates in Wholesale and Personal have been adjusted by introducing lags between 6 to 12 months. These lags are based partly on objective empirical data (i.e. the absence of increases in realised default rates by the reporting date) and partly judgmental, based on remaining government support measures and their expected effectiveness.

Extreme GDP movements – Wholesale only

Due to the specific nature of COVID-19, GDP year-on-year movements in both directions are extremely sharp, many multiples of their respective extremes observed previously.

This creates a risk of overstretched, invalid extrapolations in statistical models. Therefore, all Wholesale econometric models were updated to make them robust against extreme GDP movements by capping projected CCI values at levels corresponding to three times the default rates observed at the peak of the global financial crisis and using quarterly averages rather than spot values for CCI projections.

Scenario sensitivity – Personal only

For the Personal lending portfolio, the forward-looking components of the IFRS 9 PD models were modified, leveraging existing econometric models used in stress testing to ensure that PDs appropriately reflect the forecasts for unemployment and house prices in particular.

Additionally, post model ECL adjustments were made in Personal to ensure that the ECL was adjusted for known model over and underpredictions pre-dating COVID-19, pending the systematic recalibration of the underlying models.

Governance and post model adjustments

The IFRS 9 PD, exposure at default 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 (PMAs) were applied where management judged they were necessary to ensure an adequate level of overall ECL provision. All PMAs were subject to formal approval through provisioning governance, and were categorised as follows:

- 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, as these were being judged to have been distorted by government support schemes. As a consequence, any potential ECL release was deferred and retained on the balance sheet.
- Economic uncertainty – ECL adjustments primarily arising from uncertainties associated with MES and credit outcomes as a result of the effect of COVID-19 and the consequences of government interventions. In both cases, management judged that additional ECL was required until further credit performance data became available on the behavioural and loss consequences of COVID-19.
- Other adjustments – ECL adjustments where it was judged that the modelled ECL required to be amended.

9. Loan impairment provisions continued

PMAs 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, particularly with more observable outcomes from the unwinding of COVID-19 support mechanisms during the remainder of 2021.

ECL post model adjustments

30 June 2021	Retail Banking £m	Commercial Banking £m	Other £m	Total £m
Deferred model calibrations	**84**	**42**	**-**	**126**
Economic uncertainty	**159**	**375**	**7**	**541**
Other adjustments	**15**	**15**	**-**	**30**
	258	**432**	**7**	**697**

31 December 2020				
Deferred model calibrations	27	11	-	38
Economic uncertainty	126	388	9	523
Other adjustments	13	15	-	28
	166	414	9	589

Retail Banking – The PMA for deferred model calibrations increased to £84 million from £27 million at 31 December 2020. This reflected management's judgement that the implied ECL decreases that continued to manifest themselves through the standard PD model monitoring process during H1 2021, were not fully supportable as they were viewed as being temporarily distorted by government support mechanisms. Management retained this view on the basis that underlying portfolio performance had been influenced by the various customer support mechanisms and further outcome data is required.

The PMA for economic uncertainty increased to £159 million from £126 million at 31 December 2020. This was primarily due to the addition of a further £38 million of post model adjustments to hold back modelled LGD reductions on certain unsecured portfolio segments. The total included an ECL uplift of £46 million (a reduction from £50 million at 31 December 2020 due to PD improvements) on a subset of customers who had accessed payment holiday support where their risk profile was identified as relatively high risk. In addition, NWB Group continues to retain a holdback of a modelled ECL release of £56 million, again due to the delayed default emergence reflective of the various customer support mechanisms (£12 million related to mortgages and £44 million related to unsecured lending). The H1 2021 overlay also included an ECL uplift on buy-to-let mortgages of £12 million (31 December 2020 – £12 million) to mitigate the risk of a disproportionate credit deterioration in challenging economic circumstances.

Other judgmental overlays included £9 million (31 December 2020 – £7 million) in respect of the repayment risk not captured in the models, that a proportion of customers on interest-only mortgages would not be able to repay the capital element of their loan at the end of term, as well as a £6 million overlay for an identified weakness in the mortgage PD model pending remediation.

Commercial Banking – The PMA for economic uncertainty included an overlay of £313 million based on a judgemental thesis, reflecting concern that the unprecedented nature of COVID-19 could result in longer debt recovery periods and lower values than history suggested, and also the risk of idiosyncratic credit outcomes. It also included an overlay of £15 million in respect of elevated concerns around borrowers' ability to refinance facilities at the end of the contractual term. Additionally, it included overlays to address the effects of customer support mechanisms.

There was also a PMA for deferred model calibrations on the business banking portfolio reflecting management's judgement that the beneficial modelling impact, and implied ECL decrease, was not supportable again whilst portfolio performance was being underpinned by the various support mechanisms. Other adjustments included an overlay of £15 million to mitigate the effect of operational timing delays in the identification and flagging of a SICR.

Government guarantees

In April 2021, the UK Government launched the Recovery Loan Scheme, replacing previous support schemes which are now closed. Consistent with CBILS and the Coronavirus Large Business Interruption Loan Scheme (CLBILS), the government guarantee is 80%. NWB Group recognises lower LGDs for these lending products as a result, with 0% applied to the government-guaranteed part of the exposure. NWB Group does not directly adjust the measurement of PD due to the government guarantee and continues to move exposures to Stage 2 and Stage 3 where a significant deterioration in credit risk or a default is identified.

Measurement uncertainty and ECL sensitivity analysis

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

The 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 as at 30 June 2021. 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 upside, downside and extreme downside scenarios has been simulated. These scenarios are three of the four discrete scenarios used in the methodology for Personal MES 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 combined total 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 PMAs 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 economic uncertainty, were 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.

Notes

9. Loan impairment provisions continued

30 June 2021	Actual	Base case	Upside	Downside	Extreme downside
Stage 1 modelled exposure (£m)					
Retail Banking	137,363	137,351	137,428	137,107	127,585
Wholesale	80,493	81,793	82,235	80,582	70,496
Stage 1 modelled ECL (£m)					
Retail Banking	91	93	93	93	91
Wholesale	189	181	180	187	195
Stage 1 coverage (%)					
Retail Banking	0.07%	0.07%	0.07%	0.07%	0.07%
Wholesale	0.23%	0.22%	0.22%	0.23%	0.28%
Stage 2 modelled exposure (£m)					
Retail Banking	15,962	15,974	15,897	16,218	25,740
Wholesale	23,723	22,423	21,981	23,634	33,720
Stage 2 modelled ECL (£m)					
Retail Banking	581	590	548	653	863
Wholesale	963	892	868	954	1574
Stage 2 coverage (%)					
Retail Banking	3.63%	3.69%	3.45%	4.02%	3.35%
Wholesale	4.06%	3.98%	3.95%	4.04%	4.67%
Stage 1 and Stage 2 modelled exposure (£m)					
Retail Banking	153,325	153,325	153,325	153,325	153,325
Wholesale	104,216	104,216	104,216	104,216	104,216
Stage 1 and Stage 2 modelled ECL (£m)					
Retail Banking	672	683	641	746	954
Wholesale	1,152	1,073	1,048	1,141	1,769
Stage 1 and Stage 2 coverage (%)					
Retail Banking	0.44%	0.45%	0.42%	0.49%	0.62%
Wholesale	1.11%	1.03%	1.01%	1.09%	1.70%
Reconciliation to Stage 1 and Stage 2 ECL (£m)					
ECL on modelled exposures	1,824	1,756	1,689	1,887	2,723
ECL on non-modelled exposures	52	52	52	52	52
Total Stage 1 and Stage 2 ECL	1,876	1,808	1,741	1,939	2,775
Variance – (lower)/higher to actual total Stage 1 and Stage 2 ECL		(68)	(135)	63	899

Notes:
(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 2021 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 2021. 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 2020 Annual Report and Accounts for 31 December 2020 comparatives.

Key points

- During H1 2021, modelled ECL reduced as a result of the improved economic outlook and scenario weightings. Judgemental ECL PMAs continued to reflect residual economic uncertainty with the expectation of increased defaults later in 2021 and beyond, together with the dislocation of economic drivers with default. To a certain extent, these adjustments dampen the ECL result in the downside scenario, particularly in Wholesale which had already observed a larger proportionate increase in actual reported ECL and coverage since the onset of COVID-19.
- The moderate uplift in ECL in the downside scenario reflected the effect of the MES weightings in the actual reported ECL. The base case scenario without any MES weighting was approximately 7% lower than the downside scenario.
- If the economics were as negative as observed in the extreme downside, total Stage 1 and Stage 2 ECL was simulated to increase by over 50%. In this scenario, Stage 2 exposure increased significantly and was the key driver of the simulated ECL increase. The movement in Stage 2 balances in the other simulations was less significant.
- In the upside scenario, the simulated ECL reduction (£0.1 billion) was lower than the uplift observed in the extreme downside, again reflecting the expectation that the non-linearity of losses was skewed to the downside. In Retail Banking this is partly due to the effect of PD persistence, where Stage 2 will not be affected immediately by PD reductions.
- In Retail Banking, scenario shape dynamics led to minimal difference between the base case sensitivity and actual ECL.

Notes

9. Loan impairment provisions continued

Measurement uncertainty and ECL adequacy

The improvement in the economic outlook and scenarios used in the IFRS 9 MES framework at H1 2021 resulted in a release of modelled ECL. Given continued uncertainty remains due to COVID-19 despite the improved economic outlook, 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 and problem debt trends. This was particularly important for consideration of post model adjustments.

As government support mechanisms continue to conclude during 2021, NWB Group anticipates further credit deterioration in the portfolios. However, the income statement effect of this will be mitigated by the forward-looking provisions retained on the balance sheet as at 30 June 2021.

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. A key factor would be a more adverse deterioration in GDP and unemployment in the economies in which NWB Group operates, but also, among others:

- The ongoing trajectory of lockdown restriction relaxation within the UK, and any future repeated lockdown requirements.
- The progress of the COVID-19 vaccination roll-out and its effectiveness against new variants.
- The efficacy of the various government support initiatives in terms of their ability to defray customer defaults is yet to be proven, notably over an extended period.
- Higher unemployment if companies fail to retain jobs after the UK furlough scheme concludes in Q3 2021.
- The level of revenues lost by corporate clients and pace of recovery of those revenues may affect NWB Group's clients' ability to service their borrowing, especially in those sectors most exposed to the effects of COVID-19.

Notes

9. 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 2021 £m	31 December 2020 £m
Loans - amortised cost		
Stage 1	**243,990**	217,575
Stage 2	**38,984**	57,864
Stage 3	**3,196**	3,254
Inter-Group (1)	**2,002**	2,685
Total	**288,172**	281,378
ECL provisions (2)		
Stage 1	**300**	365
Stage 2	**1,576**	2,060
Stage 3	**1,189**	1,285
Inter-Group	**1**	2
	3,066	3,712
ECL provisions coverage (3,4)		
Stage 1 (%)	**0.12**	0.17
Stage 2 (%)	**4.04**	3.56
Stage 3 (%)	**37.20**	39.49
Inter-Group (%)	**0.05**	0.07
	1.07	1.33

	Half year ended	
	30 June 2021 £m	30 June 2020 £m
Impairment losses		
ECL (release)/charge (5)		
Stage 1	**(484)**	198
Stage 2	**(29)**	1,460
Stage 3	**76**	255
Third party	**(437)**	1,913
Inter-Group	**(1)**	-
	(438)	1,913
ECL loss rate - annualised (basis points) (4)	**(31)**	145
Amounts written-off	**209**	177

Notes:
(1) NWB Group's intercompany assets were classified in Stage 1.
(2) Includes £4 million (31 December 2020 – £5 million) related to assets classified as FVOCI.
(3) ECL provisions coverage is calculated as ECL provisions divided by loans – amortised cost and FVOCI.
(4) ECL provisions coverage and ECL loss rates are calculated on third party loans and related ECL provisions and charge respectively. ECL loss rate is calculated as annualised third party ECL charge divided by loans - amortised cost and FVOCI. The half year ECL charge is annualised by multiplying by two.
(5) Includes a £1 million charge (30 June 2020 – £4 million) related to other financial assets, of which a £1 million release (30 June 2020 – £3 million charge) related to assets classified as FVOCI; and a £6 million release (30 June 2020 – £6 million release) related to contingent liabilities.
(6) The table shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to page 31 for Financial instruments within the scope of the IFRS 9 ECL framework in the NatWest Bank 2020 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 £78.9 billion (31 December 2020 – £62.0 billion) and debt securities of £33.9 billion (31 December 2020 – £37.1 billion).
(7) The stage allocation of the ECL charge was aligned to the stage transition approach that underpins the analysis in the Flow statement section.

Key points

- ECL reduced during H1 2021 particularly for Stage 1 and Stage 2 exposures, reflecting a more positive economic outlook, commensurate with reduced levels of uncertainty due to vaccination progress and economic rebound as lockdown eases.
- The various customer support mechanisms which continue to be available mitigate against flows to default in the short-term. Hence, there was a limited impact on Stage 3 ECL requirements during H1 2021.
- Reflecting the continued high level of uncertainty arising from COVID-19, management judged that certain ECL post model adjustments were necessary. Refer to the Governance and post model adjustments section for further detail.
- Reflecting the improved economic environment, the annualised loss rate reduced to negative 31bps, significantly lower than the prior period.

Notes

9. Loan impairment provisions continued

Sector analysis

The table below shows ECL, by stage, for the Personal portfolio and key sectors of the Wholesale portfolio, that continue to be affected by COVID-19.

	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 2021	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Personal	157,032	15,719	1,649	174,400	28,651	37	107	580	620	1,307
Mortgages	150,319	12,812	1,101	164,232	9,247	3	18	143	163	324
Credit cards	1,921	846	60	2,827	10,876	-	39	149	43	231
Other personal	4,792	2,061	488	7,341	8,528	34	50	288	414	752
Wholesale	86,958	23,265	1,547	111,770	50,826	2,066	193	996	569	1,758
Property	17,383	4,119	447	21,949	10,005	292	59	160	182	401
Financial institutions	29,761	1,262	6	31,029	2,659	73	8	73	2	83
Sovereign	4,077	64	-	4,141	750	2	10	-	-	10
Corporate	35,737	17,820	1,094	54,651	37,412	1,699	116	763	385	1,264
Of which:										
Airlines and aerospace	*484*	*668*	*52*	*1,204*	*1,195*	*46*	*2*	*21*	*19*	*42*
Automotive	*3,610*	*1,490*	*189*	*5,289*	*2,902*	*46*	*14*	*53*	*11*	*78*
Education	*589*	*562*	*63*	*1,214*	*1,006*	*15*	*2*	*21*	*16*	*39*
Health	*1,861*	*1,452*	*72*	*3,385*	*433*	*4*	*8*	*71*	*22*	*101*
Land transport and logistics	*2,452*	*1,240*	*44*	*3,736*	*2,164*	*59*	*6*	*67*	*26*	*99*
Leisure	*2,447*	*3,869*	*194*	*6,510*	*1,347*	*55*	*11*	*205*	*82*	*298*
Oil and gas	*691*	*276*	*32*	*999*	*914*	*285*	*1*	*5*	*20*	*26*
Retail	*4,266*	*1,855*	*141*	*6,262*	*3,848*	*325*	*10*	*86*	*56*	*152*
Total	243,990	38,984	3,196	286,170	79,477	2,103	300	1,576	1,189	3,065
31 December 2020										
Personal	137,070	28,001	1,586	166,657	29,804	41	117	733	614	1,464
Mortgages	130,738	24,244	1,023	156,005	10,704	3	21	181	151	353
Credit cards	1,772	1,058	78	2,908	10,632	-	42	180	55	277
Other personal	4,560	2,699	485	7,744	8,468	38	54	372	408	834
Wholesale	80,505	29,863	1,668	112,036	49,487	2,212	248	1,327	671	2,246
Property	14,665	7,748	567	22,980	9,073	297	86	304	236	626
Financial institutions	27,444	1,361	7	28,812	2,762	96	11	34	2	47
Sovereign	3,550	47	-	3,597	890	1	7	-	-	7
Corporate	34,846	20,707	1,094	56,647	36,762	1,818	144	989	433	1,566
Of which:										
Airlines and aerospace	*518*	*831*	*30*	*1,379*	*1,160*	*49*	*2*	*24*	*17*	*43*
Automotive	*3,804*	*1,601*	*147*	*5,552*	*2,998*	*49*	*15*	*51*	*13*	*79*
Education	*609*	*626*	*60*	*1,295*	*922*	*15*	*2*	*37*	*15*	*54*
Health	*1,512*	*1,905*	*76*	*3,493*	*386*	*6*	*8*	*90*	*26*	*124*
Land transport and logistics	*2,218*	*1,465*	*99*	*3,782*	*2,406*	*83*	*6*	*81*	*26*	*113*
Leisure	*2,393*	*4,288*	*205*	*6,886*	*1,023*	*55*	*16*	*270*	*91*	*377*
Oil and gas	*919*	*85*	*32*	*1,036*	*1,041*	*255*	*3*	*5*	*22*	*30*
Retail	*4,411*	*1,870*	*142*	*6,423*	*4,063*	*390*	*13*	*81*	*75*	*169*
Total	217,575	57,864	3,254	278,693	79,291	2,253	365	2,060	1,285	3,710

Notes

9. Loan impairment provisions continued

Key points

- Personal – Balance sheet growth during H1 2021 was mainly due to mortgages. In line with the market, mortgage demand was strong during the first six months of the year, supported by the extension of the stamp duty holiday and overall improvements in economic conditions. The improved economic outlook captured in the updated MES scenarios, including a more positive forecast on unemployment levels, resulted in reduced account level PDs compared to the year end. Unsecured lending balances reduced over the same period as customer spend and demand for borrowing has been subdued during COVID-19 restrictions, particularly in the first quarter of 2021. Lending criteria were selectively relaxed in H1 2021 to support growing demand for secured and unsecured borrowing, as lockdown restrictions eased.
- Portfolio performance remained stable. For further details refer to the Personal portfolio section below. Arrears levels in both the mortgage and unsecured portfolios remained low overall, however, a small number of customers who had utilised their full payment holiday support did migrate into late arrears during H1 2021. With the vast majority of payment holidays now complete, this trend stabilised by the end of H1 2021. The improved economic conditions alongside continued benign credit performance in the portfolio, resulted in a smaller proportion of customer accounts triggering SICR and an associated migration of assets from Stage 2 to Stage 1, resulting in reduced ECL. The various COVID-19 related customer support mechanisms (e.g. loan repayment holidays, government job retention scheme) have mitigated actual portfolio deterioration in the short term, with the days past due and flows to Stage 3, yet to be materially affected. Provisions coverage reduced overall mirroring the positive trajectory of the COVID-19 vaccination, labour market trends and portfolio performance. The annualised loss rate for H1 2021 was significantly lower than in 2020.
- Wholesale – Balance sheet reduction was primarily due to lower levels of business activity in the period including within high risk sectors. The improved economic outlook, including positive movement in GDP and commercial real estate valuations, resulted in lower IFRS 9 PDs. Consequently, there was a reduction in exposures exhibiting a SICR which caused a migration of assets from Stage 2 to Stage 1. As a result, the ECL requirement decreased. Reflecting the residual uncertainty arising from COVID-19, management judged it appropriate to maintain certain ECL post model adjustments. The various COVID-19 related customer support mechanisms continued to mitigate against flows into default. Coverage levels in Stage 1 and Stage 2 reduced as ECL decreased, primarily as a result of the improved economic outlook and scenario weightings. The loss rate was significantly lower in H1 2021 than in the prior year. Exposure reductions occurred across the key sectors of the portfolio that continue to be affected by COVID-19, including off-balance sheet exposures in the Land Transport & Logistics, Oil and Gas, Automotive and Retail sectors. This was partially offset by increases in off balance-sheet exposure in other sectors, most notably Leisure. Sector appetite continued to be regularly reviewed with oversight classifications adjusted based on updated financial performance and economic outlook for the sectors.

Notes

9. 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 to 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 debt sale activity.
- There were small ECL flows from Stage 3 to Stage 1. This does not, however, indicate that accounts returned from Stage 3 to Stage 1 directly. On a similar basis, there were flows from Stage 1 to Stage 3 including transfers due to unexpected default events.
- The impact of any change in PMAs during the year is typically reported under changes in risk parameters, as are any impacts 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 2021	**303,032**	**365**	**60,326**	**2,060**	**3,272**	**1,285**	**366,630**	**3,710**
Currency translation and other adjustments	(1,180)	1	(91)	(1)	99	(16)	(1,172)	(16)
Inter-Group transfers	35	-	-	-	-	-	35	-
Transfers from Stage 1 to Stage 2	(16,840)	(78)	16,840	78	-	-	-	-
Transfers from Stage 2 to Stage 1	27,559	489	(27,559)	(489)	-	-	-	-
Transfers to Stage 3	(157)	(1)	(827)	(114)	984	115	-	-
Transfers from Stage 3	59	10	398	70	(457)	(80)	-	-
Net re-measurement of ECL on stage transfer		(400)		392		128		120
Changes in risk parameters (model inputs)		(128)		(228)		17		(339)
Other changes in net exposure	34,687	42	(8,192)	(192)	(403)	(26)	26,092	(176)
Other (P&L only items)		2		(1)		(43)		(42)
Income statement (releases)/charges		(484)		(29)		76		(437)
Amounts written-off	-	-	-	-	(209)	(209)	(209)	(209)
Unwinding of discount		-		-		(25)		(25)
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**	
At 1 January 2020	270,693	223	19,954	518	3,184	1,281	293,831	2,022
2020 movements	462	86	51,257	1,527	488	163	52,207	1,776
At 30 June 2020	271,155	309	71,211	2,045	3,672	1,444	346,038	3,798
Net carrying amount	270,846		69,166		2,228		342,240	

Notes

9. Loan impairment provisions continued

Flow statements

The following flow statements show the material portfolios underpinning the NWB Group flow statement.

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Retail Banking - mortgages	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2021	118,490	21	24,415	181	849	143	143,754	345
Currency translation and other adjustments	-	-	-	-	5	5	5	5
Transfers from Stage 1 to Stage 2	(5,537)	(1)	5,537	1	-	-	-	-
Transfers from Stage 2 to Stage 1	15,572	72	(15,572)	(72)	-	-	-	-
Transfers to Stage 3	(7)	-	(272)	(10)	279	10	-	-
Transfers from Stage 3	6	-	113	7	(119)	(7)	-	-
Net re-measurement of ECL on stage transfer		(69)		58		3		(8)
Changes in risk parameters (model inputs)		(5)		(10)		18		3
Other changes in net exposure	6,989	(1)	(1,334)	(11)	(88)	(5)	5,567	(17)
Other (P&L only items)		(1)		(1)		(9)		(11)
Income statement (releases)/charges		(76)		36		7		(33)
Amounts written-off	-	-	-	-	(2)	(2)	(2)	(2)
Other movements		-		-		(10)		(10)
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	
At 1 January 2020	118,299	11	7,697	58	816	128	126,812	197
2020 movements	(4,919)	4	12,596	90	54	11	7,731	105
At 30 June 2020	113,380	15	20,293	148	870	139	134,543	302
Net carrying amount	113,365		20,145		731		134,241	

Key points

- Despite the strong portfolio growth during H1 2021, ECL levels for mortgages reduced during the same period. The decrease in ECL was primarily a result of reduced PDs and LGDs reflecting the improved economic outlook and stable portfolio performance, resulting in lower levels of SICR identification and ECL requirement.
- More specifically, the reduced PDs alongside muted portfolio deterioration resulted in a net migration of assets from Stage 2 to Stage 1 with an associated decrease from lifetime ECL to a 12 month ECL. The updated economics at the 2020 year end also contributed to this migration back to Stage 1 once the PD persistence period had expired three months after the 2020 year end.
- With various customer support mechanisms available and the revised economic outlook, Stage 3 ECL remained stable as new inflows remaining subdued. 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 the moratorium on repossession activity, write-offs remained at a subdued level.

Notes

9. Loan impairment provisions continued

Flow statements

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Retail Banking - credit cards	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2021	**1,676**	**41**	**1,071**	**178**	**83**	**55**	**2,830**	**274**
Transfers from Stage 1 to Stage 2	**(361)**	**(21)**	**361**	**21**	**-**	**-**	**-**	**-**
Transfers from Stage 2 to Stage 1	**437**	**57**	**(437)**	**(57)**	**-**	**-**	**-**	**-**
Transfers to Stage 3	**(6)**	**-**	**(33)**	**(14)**	**39**	**14**	**-**	**-**
Transfers from Stage 3	**-**	**-**	**3**	**2**	**(3)**	**(2)**	**-**	**-**
Net re-measurement of ECL on stage transfer		**(35)**		**73**		**10**		**48**
Changes in risk parameters (model inputs)		**(11)**		**(26)**		**2**		**(35)**
Other changes in net exposure	**23**	**8**	**(108)**	**(29)**	**(19)**	**(1)**	**(104)**	**(22)**
Other (P&L only items)		**-**		**-**		**2**		**2**
Income statement (releases)/charges		**(38)**		**18**		**13**		**(7)**
Amounts written-off	**-**	**-**	**-**	**-**	**(33)**	**(33)**	**(33)**	**(33)**
Other movements		**-**		**-**		**(2)**		**(2)**
At 30 June 2021	**1,769**	**39**	**857**	**148**	**66**	**42**	**2,692**	**229**
Net carrying amount	**1,730**		**709**		**24**		**2,463**	
At 1 January 2020	2,108	31	907	99	90	64	3,105	194
2020 movements	(511)	3	99	94	1	(2)	(411)	95
At 30 June 2020	1,597	34	1,006	193	91	62	2,694	289
Net carrying amount	1,563		813		29		2,405	

Key points

- The overall decrease in ECL was mainly due to the reduction in Stage 2 ECL reflecting the improved economic outlook and stable portfolio performance, causing both PDs and LGDs to decrease and resulting in reduced levels of SICR identification and ECL requirement.
- More specifically, the reduced PDs alongside muted portfolio deterioration resulted in a net migration of assets from Stage 2 to Stage 1 with an associated decrease from lifetime ECL to a 12 month ECL. The updated economics at the 2020 year end also contributed to this migration back to Stage 1 once the PD persistence period had expired three months after 2020 year end.
- In line with industry trends in the UK, credit card balances reduced further during H1 2021, which has amplified the ECL reductions within the portfolio. This has stabilised as UK lockdown restrictions have eased and borrowing demand increased.
- With various customer support mechanisms available and the improved economic outlook, Stage 3 inflows have remained subdued and therefore Stage 3 ECL movement was minimal during H1 2021.
- Charge-off (analogous to partial write-off) typically occurs after 12 missed payments.

Notes

9. Loan impairment provisions continued

Flow statements

	Stage 1		Stage 2		Stage 3		Total	
Retail Banking - other personal unsecured	**Financial assets £m**	**ECL £m**	**Financial assets £m**	**ECL £m**	**Financial assets £m**	**ECL £m**	**Financial assets £m**	**ECL £m**
At 1 January 2021	**2,668**	**49**	**2,802**	**372**	**479**	**398**	**5,949**	**819**
Currency translation and other adjustments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Transfers from Stage 1 to Stage 2	**(704)**	**(18)**	**704**	**18**	**-**	**-**	**-**	**-**
Transfers from Stage 2 to Stage 1	**889**	**62**	**(889)**	**(62)**	**-**	**-**	**-**	**-**
Transfers to Stage 3	**(4)**	**-**	**(160)**	**(60)**	**164**	**60**	**-**	**-**
Transfers from Stage 3	**2**	**3**	**46**	**29**	**(48)**	**(32)**	**-**	**-**
Net re-measurement of ECL on stage transfer		**(48)**		**62**		**43**		**57**
Changes in risk parameters (model inputs)		**(8)**		**(32)**		**33**		**(7)**
Other changes in net exposure	**172**	**5**	**(474)**	**(38)**	**(43)**	**(16)**	**(345)**	**(49)**
Other (P&L only items)		**-**		**1**		**(2)**		**(1)**
Income statement (releases)/charges		**(51)**		**(7)**		**58**		**-**
Amounts written-off	**-**	**-**	**-**	**-**	**(74)**	**(74)**	**(74)**	**(74)**
Other movements		**-**		**-**		**(7)**		**(7)**
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**	
At 1 January 2020	4,295	53	1,792	206	476	405	6,563	664
2020 movements	(1,009)	25	767	182	80	59	(162)	266
At 30 June 2020	3,286	78	2,559	388	556	464	6,401	930
Net carrying amount	3,208		2,171		92		5,471	

Key points

- The overall reduction in ECL was mainly due to the reduction in Stage 2 ECL reflecting the improved economic outlook and stable portfolio performance, causing both PDs and LGDs to decrease and resulting in reduced levels of SICR identification and ECL requirement.
- More specifically, the reduced PDs alongside muted portfolio deterioration resulted in a net migration of assets from Stage 2 to Stage 1 with an associated decrease from lifetime ECL to a 12 month ECL. The updated economics at the 2020 year end also contributed to this migration back to Stage 1 once the PD persistence period had expired three months after the 2020 year end.
- In line with industry trends in the UK, unsecured balances reduced further during H1 2021, which has amplified the ECL reductions within the portfolio. This has stabilised as UK lockdown restrictions have eased and borrowing demand increased.
- With various customer support mechanisms available and the improved economic outlook, Stage 3 inflows have remained subdued and therefore Stage 3 ECL movement was minimal during H1 2021.
- 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

9. Loan impairment provisions continued

Flow statements

Commercial Banking - commercial real estate	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 2021	**10,675**	**66**	**6,721**	**241**	**499**	**195**	**17,895**	**502**
Currency translation and other adjustments	**(4)**	**-**	**(2)**	**-**	**-**	**(1)**	**(6)**	**(1)**
Inter-Group transfers	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Transfers from Stage 1 to Stage 2	**(1,259)**	**(10)**	**1,259**	**10**	**-**	**-**	**-**	**-**
Transfers from Stage 2 to Stage 1	**3,223**	**96**	**(3,223)**	**(96)**	**-**	**-**	**-**	**-**
Transfers to Stage 3	**(4)**	**-**	**(84)**	**(4)**	**88**	**4**	**-**	**-**
Transfers from Stage 3	**5**	**-**	**57**	**6**	**(62)**	**(6)**	**-**	**-**
Net re-measurement of ECL on stage transfer		**(71)**		**16**		**5**		**(50)**
Changes in risk parameters (model inputs)		**(49)**		**(20)**		**(35)**		**(104)**
Other changes in net exposure	**826**	**15**	**(1,037)**	**(24)**	**(104)**	**14**	**(315)**	**5**
Other (P&L only items)		**-**		**-**		**-**		**-**
Income statement releases		**(105)**		**(28)**		**(16)**		**(149)**
Amounts written-off	**-**	**-**	**-**	**-**	**(38)**	**(38)**	**(38)**	**(38)**
Other movements		**-**		**-**		**(1)**		**(1)**
At 30 June 2021	**13,462**	**47**	**3,691**	**129**	**383**	**137**	**17,536**	**313**
Net carrying amount	**13,415**		**3,562**		**246**		**17,223**	
At 1 January 2020	14,714	20	1,456	17	403	157	16,573	194
2020 movements	(3,291)	43	5,647	166	92	29	2,448	238
At 30 June 2020	11,423	63	7,103	183	495	186	19,021	432
Net carrying amount	11,360		6,920		309		18,589	

Key points

- The decrease in ECL in Stage 1 and Stage 2 was primarily due to the improvement in the economic outlook. This resulted in a reduction in IFRS 9 PDs and a flow of exposure from Stage 2 to Stage 1.
- Additionally, the migration of assets from Stage 2 to Stage 1 resulted in an increase in Stage 1 exposure.
- Flows to Stage 3 during H1 2021 were low, as government support continued to mitigate against defaults in the Wholesale portfolio.
- Stage 3 ECL reduced over the period with the write-off of previously impaired debt which resulted in some ECL release over the period.

Notes

9. Loan impairment provisions continued

Flow statements

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Commercial Banking - business banking	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2021	10,164	34	1,764	121	189	132	12,117	287
Currency translation and other adjustments	-	-	-	-	-	-	-	-
Transfers from Stage 1 to Stage 2	(1,678)	(7)	1,678	7	-	-	-	-
Transfers from Stage 2 to Stage 1	946	50	(946)	(50)	-	-	-	-
Transfers to Stage 3	(39)	-	(69)	(14)	108	14	-	-
Transfers from Stage 3	5	1	10	3	(15)	(4)	-	-
Net re-measurement of ECL on stage transfer		(48)		96		9		57
Changes in risk parameters (model inputs)		(3)		(38)		2		(39)
Other changes in net exposure	275	(3)	(165)	(11)	(18)	(3)	92	(17)
Other (P&L only items)		-		-		(16)		(16)
Income statement (releases)/charges		(54)		47		(8)		(15)
Amounts written-off	-	-	-	-	(15)	(15)	(15)	(15)
Other movements		-		-		(3)		(3)
At 30 June 2021	9,673	24	2,272	114	249	132	12,194	270
Net carrying amount	9,649		2,158		117		11,924	
At 1 January 2020	5,123	24	623	37	188	147	5,934	208
2020 movements	2,495	3	694	44	1	(5)	3,190	42
At 30 June 2020	7,618	27	1,317	81	189	142	9,124	250
Net carrying amount	7,591		1,236		47		8,874	

Key points

- The reduction in ECL in Stage 1 and Stage 2 was primarily due to the improvement in the economic outlook, causing both PDs and LGDs to decrease.
- The updated economics also resulted in a migration of assets from Stage 2 to Stage 1 with a consequential decrease from a lifetime ECL to a 12 month ECL.
- Flows of defaulted exposure into Stage 3 remain suppressed reflecting the various government customer support mechanisms available, with ECL reducing during H1 2021.
- Other changes in net exposures reduced in Stage 1 as customers repaid existing debt.
- The portfolio continued to benefit 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.

Notes

9. Loan impairment provisions continued

Flow statements

	Stage 1		Stage 2		Stage 3		Total	
Commercial Banking - other	**Financial assets £m**	**ECL £m**	**Financial assets £m**	**ECL £m**	**Financial assets £m**	**ECL £m**	**Financial assets £m**	**ECL £m**
At 1 January 2021	**30,382**	**114**	**20,576**	**885**	**917**	**325**	**51,875**	**1,324**
Currency translation and other adjustments	**(206)**	**-**	**(73)**	**-**	**62**	**(4)**	**(217)**	**(4)**
Inter-Group transfers	**35**	**-**	**-**	**-**	**-**	**-**	**35**	**-**
Transfers from Stage 1 to Stage 2	**(3,630)**	**(17)**	**3,630**	**17**	**-**	**-**	**-**	**-**
Transfers from Stage 2 to Stage 1	**4,807**	**128**	**(4,807)**	**(128)**	**-**	**-**	**-**	**-**
Transfers to Stage 3	**(41)**	**-**	**(178)**	**(12)**	**219**	**12**	**-**	**-**
Transfers from Stage 3	**17**	**5**	**165**	**24**	**(182)**	**(29)**	**-**	**-**
Net re-measurement of ECL on stage transfer		**(112)**		**77**		**59**		**24**
Changes in risk parameters (model inputs)		**(39)**		**(98)**		**(19)**		**(156)**
Other changes in net exposure	**(180)**	**16**	**(2,434)**	**(71)**	**(85)**	**(19)**	**(2,699)**	**(74)**
Other (P&L only items)		**1**		**(2)**		**(2)**		**(3)**
Income statement (releases)/charges		**(134)**		**(94)**		**19**		**(209)**
Amounts written-off	**-**	**-**	**-**	**-**	**(43)**	**(43)**	**(43)**	**(43)**
Other movements		**-**		**-**		**(2)**		**(2)**
At 30 June 2021	**31,184**	**95**	**16,879**	**694**	**888**	**280**	**48,951**	**1,069**
Net carrying amount	**31,089**		**16,185**		**608**		**47,882**	
At 1 January 2020	39,836	73	6,926	95	1,033	354	47,795	522
2020 movements	(24,098)	(6)	29,343	891	193	74	5,438	959
At 30 June 2020	15,738	67	36,269	986	1,226	428	53,233	1,481
Net carrying amount	15,671		35,283		798		51,752	

Key points

- The decrease in ECL in Stage 1 and Stage 2 was primarily due to the improvement in economic outlook and the change in scenario weightings. Underlying PD's and LGDs improved as a result.
- The updated economics resulted in the migration of assets from Stage 2 to Stage 1 with a consequential reduction in Stage 2 lifetime ECL.
- Flows to Stage 3 remain relatively low reflecting the various government customer support mechanisms.
- Changes in net exposure reduced in Stage 1 and 2 with repayment of existing debt which was not fully replaced by new lending in the period due to muted demand.

Notes

9. 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)			
Retail Banking 30 June 2021	**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%	**46,666**	**3,510**	**389**	**54**	**50,619**	**2,348**	**3**	**45**	**79**	**127**	**-**	**1.2**	**20.2**	**0.2**
>50% and ≤70%	**58,814**	**4,743**	**359**	**10**	**63,926**	**4,951**	**5**	**59**	**57**	**121**	**-**	**1.2**	**16.0**	**0.2**
>70% and ≤80%	**26,583**	**2,633**	**89**	**1**	**29,306**	**7,362**	**6**	**27**	**13**	**46**	**-**	**1.0**	**14.9**	**0.2**
>80% and ≤90%	**6,620**	**1,522**	**25**	**1**	**8,168**	**3,471**	**2**	**13**	**4**	**19**	**-**	**0.9**	**15.5**	**0.2**
>90% and ≤100%	**458**	**13**	**2**	**-**	**473**	**24**	**-**	**-**	**-**	**-**	**-**	**1.5**	**19.0**	**0.1**
>100% and ≤110%	**4**	**4**	**-**	**-**	**8**	**-**	**-**	**-**	**-**	**-**	**-**	**1.6**	**18.0**	**1.4**
>110% and ≤130%	**4**	**3**	**-**	**-**	**7**	**-**	**-**	**-**	**-**	**-**	**-**	**5.4**	**38.3**	**2.5**
>130% and ≤150%	**3**	**2**	**-**	**-**	**5**	**-**	**-**	**-**	**-**	**-**	**-**	**2.0**	**-**	**1.0**
Total with LTVs	**139,152**	**12,430**	**864**	**66**	**152,512**	**18,156**	**16**	**144**	**153**	**313**	**-**	**1.2**	**17.8**	**0.2**
Other	**13**	**1**	**1**	**—**	**15**	**124**	**—**	**—**	**1**	**1**	**-**	**3.0**	**80.0**	**3.8**
Total	**139,165**	**12,431**	**865**	**66**	**152,527**	**18,280**	**16**	**144**	**154**	**314**	**-**	**1.2**	**17.8**	**0.2**
31 December 2020														
≤50%	42,193	3,585	348	112	46,238	4,026	3	29	63	95	-	0.8	18.2	0.2
>50% and ≤70%	50,853	6,102	334	31	57,320	8,845	6	49	50	105	-	0.8	14.9	0.2
>70% and ≤80%	18,979	8,922	99	8	28,008	10,835	7	47	16	70	-	0.5	16.0	0.2
>80% and ≤90%	7,669	5,326	36	6	13,037	5,037	3	46	7	56	-	0.9	18.5	0.4
>90% and ≤100%	363	122	9	2	496	832	-	4	2	6	0.10	3.3	24.8	1.3
>100% and ≤110%	18	27	4	1	50	-	-	2	1	3	0.10	6.3	16.9	4.8
>110% and ≤130%	23	43	5	1	72	-	-	3	2	5	0.30	7.2	29.5	6.6
>130% and ≤150%	5	19	5	-	29	-	-	1	1	2	-	7.2	21.2	8.1
>150%	1	3	3	-	7	-	-	-	1	1	0.10	9.4	44.4	22.6
Total with LTVs	120,104	24,149	843	161	145,257	29,575	19	181	143	343	-	0.7	16.9	0.2
Other	14	3	1	-	18	159	-	-	-	-	-	1.3	20.7	1.0
Total	120,118	24,152	844	161	145,275	29,734	19	181	143	343	-	0.7	16.9	0.2

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

Key points

- LTV distribution improved with strong house price growth in the UK in the first half of the year and the more cautious approach to LTV for new lending, adopted in response to COVID-19, which has seen a reduction in exposure to higher LTV bands.
- ECL coverage rates increased through the LTV bands with only limited exposure in the highest LTV bands. The relatively high coverage level in the lowest LTV band included the effect of time-discounting on expected recoveries. Additionally, this also reflected the modelling approach that recognised an element of expected loss on mortgages that are not subject to formal repossession activity.

Notes

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 2021. 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 2021 £m	31 December 2020 £m
Guarantees (1)	**674**	762
Other contingent liabilities	**1,272**	1,404
Standby facilities, credit lines and other commitments	**76,596**	75,625
Contingent liabilities and commitments	**78,542**	77,791

Note:
(1) In the normal course of business, NWB Plc guarantees specified third party liabilities of certain subsidiaries; it also gives undertakings that individual subsidiaries will fulfil their obligations to third parties under contractual or other arrangements.

Indemnity deed

In addition to the numbers above, NWB Plc and NWM Plc also have a cross indemnity agreement in place for losses incurred within the entities in relation to business transferred to or from the ring-fenced bank under NatWest Group's structural re-organisation. Under the agreement, NWB Plc is indemnified by NWM Plc against losses relating to NWM Plc transferring businesses and non ring-fenced bank obligations and NWM Plc is indemnified by NWB Plc against losses relating to NWB Plc transferring businesses and 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.

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.

For a discussion of certain risks associated with NWB Group's litigation and regulatory matters (including investigations and customer redress programmes), see the Risk Factor relating to legal, regulatory and governmental actions and investigations set out on page 173 of NWB Plc's 2020 Annual Report and Accounts.

Litigation

London Interbank Offered Rate (LIBOR) and other rates litigation

In January 2019, a class action antitrust complaint was filed in the United States District Court for the Southern District of New York alleging that the defendants (USD ICE LIBOR panel banks and affiliates) have conspired to suppress USD ICE LIBOR from 2014 to the present by submitting incorrect information to ICE about their borrowing costs. The NatWest Group defendants are NatWest Group plc, NatWest Markets Plc, NatWest Markets Securities Inc., and NWB Plc. The defendants made a motion to dismiss this case, which was granted by the court in March 2020. Plaintiffs' appeal of the dismissal is pending in the United States Court of Appeals for the Second Circuit.

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 intend to seek dismissal.

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

NWB Plc is a defendant in 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. The plaintiffs allege that NWB Plc is liable for damages arising from those attacks pursuant to the US Anti-Terrorism Act because NWB Plc previously maintained bank accounts and transferred funds for the Palestine Relief & Development Fund, an organisation which plaintiffs allege solicited funds for Hamas, the alleged perpetrator of the attacks.

In October 2017, the trial court dismissed claims against NWB Plc with respect to two of the 18 terrorist attacks at issue. In March 2018, the trial court granted a request by NWB Plc for leave to file a renewed summary judgment motion in respect of the remaining claims, and in March 2019, the court granted summary judgment in favour of NWB Plc. In April 2021, the United States Court of Appeals for the Second Circuit affirmed the trial court's judgment in favour of NWB Plc, subject to the right of the plaintiffs to seek discretionary review by the United States Supreme Court.

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. 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.

Investigations

FCA investigation into NatWest Group's compliance with the Money Laundering Regulations 2007

In July 2017, the FCA notified NatWest Group that it was undertaking an investigation into NatWest Group's compliance with the UK Money Laundering Regulations 2007 ('MLR 2007') in relation to certain money service businesses and related parties. The investigation is assessing both criminal and civil culpability. NatWest Group is co-operating with the investigation, including responding to information requests from the FCA.

On 15 March 2021, the FCA notified NatWest Group that it had commenced criminal proceedings against NWB Plc for offences under regulation 45(1) of the MLR 2007 for alleged failures to comply with regulations 8(1), 8(3) and 14(1) of the MLR 2007 between 11 November 2011 and 19 October 2016, arising from the handling of the accounts of a UK incorporated customer. These regulations require the firm to determine, conduct and demonstrate risk sensitive due diligence and ongoing monitoring of its relationships with its customers for the purposes of preventing money laundering. NWB Plc will be required to attend an initial hearing at Westminster Magistrates' Court on 15 September 2021. Material adverse collateral consequences, in addition to further substantial costs and the recognition of provisions, may occur as a result of any conviction.

11. Litigation and regulatory matters continued

Systematic Anti-Money Laundering Programme assessment

In December 2018, the FCA commenced a Systematic Anti-Money Laundering Programme assessment of NatWest Group. In August 2019, the FCA instructed NatWest Group to appoint a Skilled Person under section 166 of the Financial Services and Markets Act 2000 to provide assurance on financial crime governance arrangements in relation to two financial crime change programmes. NatWest Group is co-operating with the Skilled Person's review, which is ongoing.

FCA mortgages market study

In December 2016, the FCA launched a market study into the provision of mortgages. In March 2019 the final report was published. This found that competition was working well for many customers but also proposed remedies to help customers shop around more easily for mortgages. A period of consultation remains ongoing and the FCA has indicated that it intends to provide updates on the remedies in due course.

Customer redress programmes

FCA review of NatWest Group's treatment of SMEs

In 2014, the FCA appointed an independent Skilled Person under section 166 of the Financial Services and Markets Act 2000 to review NatWest Group's treatment of SME customers whose relationship was managed by NatWest Group's Global Restructuring Group (GRG) in the period 1 January 2008 to 31 December 2013. In response to the Skilled Person's final report and update in 2016, NatWest Group announced redress steps for SME customers in the UK and the Republic of Ireland that were in GRG between 2008 and 2013. These steps were (i) an automatic refund of certain complex fees; and (ii) a new complaints process, overseen by an independent third party. The complaints process has since closed to new complaints.

NWB Group's remaining provisions in relation to these matters at 30 June 2021 were £9 million.

Investment advice review

During 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 now concluded and, after discussion with the FCA, NatWest Group is now conducting additional review / remediation work. NatWest Group recognised an increased provision in relation to these matters at 31 December 2020.

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 levies).

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 2020 are included in NatWest Bank Plc's 2020 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 2021 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 29 July 2021.

Independent review report to National Westminster Bank Plc

Conclusion

We have been engaged by National Westminster Bank Plc (“the Group”) to review the condensed consolidated financial statements in the half-yearly financial report for the six months ended 30 June 2021 which comprise 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 consolidated financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements in the half-yearly financial report for the six months ended 30 June 2021 are 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 and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. 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 will be prepared in accordance with UK adopted IFRSs. The condensed consolidated financial statements included in this half-yearly financial report have been prepared in accordance with UK adopted International Accounting Standard 34, “Interim Financial Reporting”.

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.

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 consolidated financial statements in the half-yearly financial report. Our conclusion, based on procedures that are less extensive than audit procedures, is 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 and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. 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
29 July 2021

NWB Summary Risk Factors

Summary of our 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 160 to 175 of the NatWest Bank Plc 2020 Annual Report and Accounts. Any of the risks identified may have a material adverse effect on NWB Group's business, operations, financial condition or prospects. The current COVID-19 pandemic may exacerbate any of the risks described below.

Risks relating to the COVID-19 pandemic

- The effects of the COVID-19 pandemic on the UK, global economies and financial markets and NWB Group's customers, as well as its competitive environment may continue to have a material adverse effect on NWB Group's business, results of operations and outlook.
- The adverse impact of the COVID-19 pandemic on the credit quality of NWB Group's counterparties and the implementation of support schemes in response of the COVID-19 pandemic has increased NWB Group's exposure to counterparty risk, which may adversely affect its business, results of operations and outlook.
- The COVID-19 pandemic may adversely affect NWB Group's strategy and impair its ability to meet its targets and to achieve its strategic objectives.
- The COVID-19 pandemic has heightened NWB Group's operational risks as many of its employees are working remotely which may also adversely affect NWB Group's ability to maintain effective internal controls.
- The effects of the COVID-19 pandemic could affect NWB Group's ability to access sources of liquidity and funding, which may result in higher funding costs and failure to comply with regulatory capital, funding and leverage requirements.

Economic and political risk

- Continuing uncertainty regarding the effects of the UK's withdrawal from the European Union may continue to adversely affect NWB Group and its operating environment.
- NWB Group faces political and economic risks and uncertainty in the UK and global markets
- 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) is currently implementing its Purpose-led strategy which carries significant execution and operational risks and it may not achieve its stated aims and targeted outcomes.

Financial resilience risk

- NWB Group may not meet targets or generate sustainable returns.
- 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 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 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 oversight in respect of resolution, and NWB Group could be adversely affected should the Bank of England deem NatWest Group's preparations to be inadequate.

NWB Summary Risk Factors

Climate and sustainability-related risks

- NWB Group and its customers may face significant climate-related risks, including in transitioning to a low-carbon economy, which may adversely impact NWB Group.
- NatWest Group's Purpose-led Strategy includes one area of focus on climate change that is likely to require material changes to the business model of NWB Group which entails significant execution risk.
- Any failure by NWB Group to implement effective and compliant climate change resilient systems, controls and procedures could adversely affect NWB Group's ability to manage climate-related risks.
- There are 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's 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.
- 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.
- NWB Group relies on attracting, retaining and developing 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 subject to various litigation matters, regulatory 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.
- NWB Group operates in jurisdictions that are subject to intense scrutiny by the competition authorities.
- The cost of implementing the Alternative Remedies Package ('ARP') could be more onerous than anticipated.
- 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

29 July 2021

Board of directors

Chairman	**Executive directors**	**Non-executive directors**
Howard Davies	Alison Rose-Slade Katie Murray	Francesca Barnes Graham Beale Ian Cormack Frank Dangeard Patrick Flynn Morten Friis Robert Gillespie Yasmin Jetha Mike Rogers Mark Seligman Lena Wilson

Presentation of information

National Westminster Bank Plc ('NWB 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' represent pence in the United Kingdom ('UK'). 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, and references to 'cents' represent cents in the US. The abbreviation '€' represents the 'euro', and the abbreviations '€m' and '€bn' represent millions and thousands of millions of euros, respectively, and references to 'cents' represent cents in the European Union ('EU').

To aid readability, this document retains references to EU legislative and regulatory provisions in effect in the UK before 1 January 2021 that have now been implemented in UK domestic law. These references should be read and construed as including references to the applicable UK implementation measures with effect from 1 January 2021.

Statutory results

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 2020 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.

Non-IFRS financial measures

NWB Group prepares its financial statements in accordance with generally accepted accounting principles (GAAP). This document contains a number of adjusted or alternative performance measures, also known as non-GAAP or non-IFRS financial measures. These measures are adjusted for certain items which management believes are not representative of the underlying performance of the business and which distort period-on-period comparison. These non-IFRS measures provide users of the financial statements with a consistent basis for comparing business performance between financial periods and information on elements of performance that are one-off in nature. The non-IFRS measures also include the calculation of metrics that are used throughout the banking industry. These non-IFRS measures are not measures within the scope of IFRS and are not a substitute for IFRS measures. These measures include management analysis of the operating expenses which shows strategic costs and litigation and conduct costs in separate lines on page 3. These amounts are included in staff, premises and equipment and other administrative expenses in the statutory analysis.

Condensed consolidated financial statements

The unaudited condensed consolidated financial statements for the half year ended 30 June 2021 comprise the following sections of this document:

Statutory results on pages 8 to 43 comprising the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated balance sheet, condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and the related notes 1 to 14.

The above sections are within the scope of the independent review performed by Ernst & Young LLP (EY). Refer to the Independent review report to NatWest Bank Plc on page 44 for further information.

Contact

Alexander Holcroft	Investor Relations	+44 (0) 20 7672 1758

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: the impact of the COVID-19 pandemic, 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, 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 economic and political risks (including with respect to terms surrounding Brexit and climate change), operational risk, conduct risk, cyber and IT 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, the impact of the COVID-19 pandemic, 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 and the impact of climate-related risks and the transitioning to a low-carbon economy. 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 2020 Annual Report and Accounts (ARA),NWB Plc’s Interim Results for H1 2021 and other public filings. 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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