



# Interim Results 2020

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**NatWest Group plc**  
**Interim Results for the period ending 30 June 2020**

**Alison Rose, Chief Executive Officer, commented:**

*“Our performance in the first half of the year has been significantly impacted by the challenges and uncertainty our economy continues to face as a result of Covid-19. However, NatWest Group has a robust capital position, underpinned by a resilient, capital generative and well diversified business.*

*Throughout this crisis we have provided exceptional levels of support to our customers, colleagues and the communities we serve. I am proud that our colleagues have consistently shown they are putting our purpose at the heart of everything they do.*

*Through our strong balance sheet and prudent approach to risk, we are well placed not only to withstand Covid-19 related impacts but also to provide the right support to those who will need it most in the tough times to come.*

*Our purposeful strategy will help our customers, colleagues and communities to recover, rebuild and, ultimately, to thrive. We are building a sustainable business that will generate lasting value for all our stakeholders, as we work together to create a greener, fairer and more inclusive economy.”*

**Financial performance in a challenging environment**

- H1 2020 operating loss before tax of £770 million and operating profit before impairment losses of £2,088 million.
- Net impairment losses of £2,858 million in H1 2020, or 159 basis points of gross customer loans, resulted in an expected credit loss (ECL) coverage ratio of 1.72% across the Personal and Wholesale portfolios.
- In comparison to H1 2019, across the retail and commercial businesses income decreased by 9.0% whilst NatWest Markets income excluding asset disposals/strategic risk reduction, own credit adjustments (OCA) and notable items increased by 44.4%.
- Bank net interest margin (NIM) of 1.67% was 22 basis points lower than Q1 2020 reflecting the contraction of the yield curve, 10 basis points, the impact of a change in the mix of lending, 5 basis points, and excess levels of central liquidity, 7 basis points.
- Other expenses, excluding operating lease depreciation (OLD), were £41 million lower than H1 2019.

**Robust balance sheet with strong capital and liquidity levels**

- We have maintained absolute and relative capital strength and retain significant headroom above the regulatory minimum. CET1 ratio of 17.2% was 60 basis points higher than Q1 2020, benefiting from a £3.7 billion reduction in RWAs. In addition, the attributable loss for the quarter was more than offset by a c.70 basis point increase in IFRS 9 transitional relief.
- The liquidity coverage ratio (LCR) is strong at 166%, 14 percentage points higher than Q1 2020 reflecting the significant increase in customer deposits.
- Across the retail and commercial businesses net lending increased by £16.0 billion during H1 2020, of which £8.4 billion related to drawdowns against UK Government lending initiatives and £7.6 billion was due to mortgages.
- Customer deposits increased by £39.1 billion in H1 2020 to £408.3 billion, as customers sought to retain liquidity and reduced spending as a result of government measures in relation to Covid-19.

**Outlook<sup>(1)</sup>**

We remain committed to achieving a £250 million cost reduction in 2020 and expect strategic costs to be within our £0.8-1.0 billion guidance after recognising property related charges in Q2 2020.

We believe the full year 2020 impairment charge is likely to be in the range of £3.5-4.5 billion. Impairment charges in the second half of 2020 will be driven by a combination of the developing economic outlook for the UK and Republic of Ireland, along with the effectiveness of government support schemes in delaying and reducing the level of economic distress experienced by our personal and commercial customers, and the absolute level of defaults across lending portfolios and associated ECL stage migration.

We expect RWAs to be in the range of £185-195 billion at the end of 2020. Changes in RWAs in the second half of 2020 will be driven by the delivery of targeted reductions in NatWest Markets, the level of procyclical inflation driven by the economic outlook, downgrades in the credit quality and assessments in the commercial book and ongoing demand for lending from our customers.

We continue to target a reduction in NatWest Markets RWAs to £32 billion by the end of 2020, with income disposal losses of around £0.2 billion, subject to market conditions. We are now intending to achieve the majority of the expected medium term reduction in NatWest Markets RWAs by the end of 2021, while managing the associated income disposal losses to around £0.6 billion over the two years.

We continue to monitor events closely and assess potential scenarios and outcomes. The multiple economic scenarios underpinning our guidance are disclosed on pages 28-35. The impacts of Covid-19 on the economy and the mitigating benefits of government support schemes remain uncertain and could result in changes to our financial results in upcoming periods, including the possible impairment of goodwill.

Note:

- (1) The guidance, targets, expectations and trends discussed in this section represent management's current expectations and are subject to change, including as a result of the factors described in the "Risk Factors" section on pages 108 and 109 of this announcement, pages 29-31 of NatWest Group plc's (formerly The Royal Bank of Scotland Group plc) Q1 IMS and pages 281 to 295 of NatWest Group plc's 2019 Annual Report & Accounts. These statements constitute forward-looking statements. Refer to Forward-looking statements in this announcement.

## Our Purpose in action – we champion potential, helping people, families and businesses to thrive

### Helping our colleagues and customers through the impacts of Covid-19

#### Provided lending support to our customers with a disciplined approach to risk and value creation:

- Approved £10.1 billion through the government lending initiatives<sup>(1,2)</sup>.
- Facilitated approximately £7.4 billion of Covid-19 Corporate Financing Facilities (CCFF) issuances<sup>(2)</sup>.

#### Supported the financial health of our customers:

- Helped approximately 240,000 customers with an initial three month mortgage repayment holiday and provided payment holidays, of up to twelve months, on approximately 71,000 business customer accounts<sup>(2)</sup>.
- Delivered approximately £2.0 million of cash to vulnerable customers' homes<sup>(2)</sup>.

#### Long-term investment plan is powering our operational effectiveness:

- Increased digital adoption with over 500,000 new mobile app downloads and over 485,000 new online banking customers<sup>(2)</sup>.
- Launched digital credit scoring in our mobile app with a net promoter score of +52<sup>(3)</sup>.

#### Partnered to proactively respond and support UK communities:

- Supported the National Emergencies Trust by raising £10 million through matched customer donations.
- Donated £1 million to eight existing debt management not-for-profit partners.

#### Prioritised the wellbeing of our colleagues:

- Enabled over 50,000 colleagues to work from home, including over three quarters of our contact centre colleagues.
- Ensured that all colleagues continue to be paid as normal until September if they need to take some time to look after their families, are unable to work from home or if they are ill.

### H1 2020 progress against our three chosen areas of focus

#### Enterprise – addressing barriers to enterprise and business creation:

- Migrated our twelve accelerator hubs to digital channel delivery.
- Digitised our Dream Bigger programme which supports the next generation of female entrepreneurs.
- Launched a £5 million Enterprise Relief Fund in partnership with The Prince's Trust.

#### Learning – skill building, particularly around financial confidence:

- Reached approximately two million people through financial capability interactions including live MoneySense lessons on social media platforms<sup>(2)</sup>.
- Helped approximately 305,000 additional customers to start saving<sup>(2)</sup>.
- Over 1 million downloads of Island Saver, the world's first financial education console and PC game.

#### Climate – supporting the necessary transition to a low carbon economy:

- NatWest Group plc issued a green MREL bond, the first green bond issued in USD by a UK bank, with \$600 million of proceeds allocated to renewable energy projects.
- NatWest Group has recently joined the UNEP FI PRB Collective Commitment on Climate Action and is the first major UK bank to join the Partnership for Carbon Accounting (PCAF), two important global initiatives that signal our level of commitment to measuring and reducing our climate impact in accordance with the 2015 Paris Agreement.
- Helped our customers through c.£4.0 billion of new sustainable financing and funding for H1 2020.

#### Notes:

(1) Inclusive of Commercial Banking and Private Banking: Bounce Back Loan Scheme (BBLS) – £6.1 billion; Coronavirus Business Interruption Loan Scheme (CBILS) – £3.3 billion; Coronavirus Large Business Interruption Loan Scheme (CLBILS) – £0.7 billion.

(2) As at 30 June 2020.

(3) As at 3 April 2020.

## Business performance summary

|  | Half year ended |                 | Quarter ended    |                  |                 |
|--|-----------------|-----------------|------------------|------------------|-----------------|
|  | 30 June<br>2020 | 30 June<br>2019 | 30 June<br>2020  | 31 March<br>2020 | 30 June<br>2019 |
| <b>Performance key metrics and ratios</b>                                  |                 |                 |                  |                  |                 |
| Profit before impairment losses  | <b>£2,088m</b>  | £3,017m         | <b>£767m</b>     | £1,321m          | £1,918m         |
| Operating (loss)/profit before tax   | <b>(£770m)</b>  | £2,694m         | <b>(£1,289m)</b> | £519m            | £1,681m         |
| (Loss)/profit attributable to ordinary shareholders                        | <b>(£705m)</b>  | £2,038m         | <b>(£993m)</b>   | £288m            | £1,331m         |
| Bank net interest margin (NatWest Group NIM excluding NWM) (1)             | <b>1.78%</b>    | 2.04%           | <b>1.67%</b>     | 1.89%            | 2.02%           |
| Bank average interest earning assets (NatWest Group excluding NWM) (1)     | <b>£440bn</b>   | £407bn          | <b>£458bn</b>    | £422bn           | £410bn          |
| Cost:income ratio (1)  | <b>63.8%</b>    | 57.2%           | <b>70.9%</b>     | 57.7%            | 52.6%           |
| Loan impairment rate (1)   | <b>159bps</b>   | 21bps           | <b>229bps</b>    | 90bps            | 30bps           |
| Earnings per share   |                 |                 |                  |                  |                 |
| - basic  | <b>(5.8p)</b>   | 16.9p           | <b>(8.2p)</b>    | 2.4p             | 11.0p           |
| - basic fully diluted  | <b>(5.8p)</b>   | 16.8p           | <b>(8.2p)</b>    | 2.4p             | 11.0p           |
| Return on tangible equity (1)  | <b>(4.4%)</b>   | 12.1%           | <b>(12.4%)</b>   | 3.6%             | 15.8%           |
| Average tangible equity  | <b>£32bn</b>    | £34bn           | <b>£32bn</b>     | £32bn            | £34bn           |
| Average number of ordinary shares outstanding during the period (millions) |                 |                 |                  |                  |                 |
| - basic  | <b>12,079</b>   | 12,058          | <b>12,085</b>    | 12,074           | 12,069          |
| - basic fully diluted (2)  | <b>12,101</b>   | 12,096          | <b>12,107</b>    | 12,100           | 12,104          |

|  | 30 June<br>2020 | 31 March<br>2020 | 31 December<br>2019 |
|--|-----------------|------------------|---------------------|
| <b>Balance sheet related key metrics and ratios</b>                      |                 |                  |                     |
| Total assets   | <b>£806.9bn</b> | £817.6bn         | £723.0bn            |
| Funded assets (1)  | <b>£623.5bn</b> | £608.9bn         | £573.0bn            |
| Loans to customers - amortised cost                                      | <b>£352.3bn</b> | £351.3bn         | £326.9bn            |
| Impairment provisions  | <b>£6.1bn</b>   | £4.2bn           | £3.7bn              |
| Customer deposits  | <b>£408.3bn</b> | £384.8bn         | £369.2bn            |
| Liquidity coverage ratio (LCR)   | <b>166%</b>     | 152%             | 152%                |
| Liquidity portfolio  | <b>£243bn</b>   | £201bn           | £199bn              |
| Net stable funding ratio (NSFR) (3)                                      | <b>144%</b>     | 138%             | 141%                |
| Loan:deposit ratio (1)   | <b>86%</b>      | 91%              | 89%                 |
| Total wholesale funding  | <b>£86bn</b>    | £86bn            | £75bn               |
| Short-term wholesale funding   | <b>£22bn</b>    | £32bn            | £19bn               |
| Common equity tier (CET1) ratio (4)                                      | <b>17.2%</b>    | 16.6%            | 16.2%               |
| Total capital ratio  | <b>22.5%</b>    | 21.4%            | 21.2%               |
| Pro forma CET1 ratio, pre dividend accrual (5)                           | <b>17.2%</b>    | 16.6%            | 17.0%               |
| Risk-weighted assets (RWAs)  | <b>£181.5bn</b> | £185.2bn         | £179.2bn            |
| CRR leverage ratio   | <b>5.1%</b>     | 5.1%             | 5.1%                |
| UK leverage ratio  | <b>6.0%</b>     | 5.8%             | 5.8%                |
| Tangible net asset value (TNAV) per ordinary share                       | <b>264p</b>     | 273p             | 268p                |
| Tangible net asset value (TNAV) per ordinary share - fully diluted (1,2) | <b>263p</b>     | 272p             | 267p                |
| Tangible equity  | <b>£32,006m</b> | £32,990m         | £32,371m            |
| Number of ordinary shares in issue (millions)                            | <b>12,125</b>   | 12,094           | 12,094              |
| Number of ordinary shares in issue (millions) - fully diluted (2,6)      | <b>12,147</b>   | 12,116           | 12,138              |

### Notes:

- (1) Refer to the Appendix for details of basis of preparation and reconciliation of non-IFRS financial and performance measures where relevant.
- (2) Includes the effect of dilutive share options and convertible securities. Dilutive shares on an average basis for H1 2020 were 22 million shares and for Q2 2020 were 22 million shares; (Q1 2020 - 26 million shares, H1 2019 - 38 million shares; Q2 2019 - 35 million shares), and as at 30 June 2020 were 22 million shares (31 March 2020 - 22 million shares; 31 December 2019 - 44 million shares).
- (3) NSFR reported in line with CRR2 regulations finalised in June 2019.
- (4) Based on CRR end point including the IFRS 9 transitional adjustment of £1.6 billion. Excluding this adjustment, the CET 1 ratio would be 16.3%.
- (5) At June 2020 and March 2020 there was no charge in CET1 for foreseeable dividends or charges. The pro forma CET 1 ratio at 31 December 2019 excludes foreseeable charges of £968 million for ordinary dividends (3p per share final dividend and 5p per share special dividend) and £365 million pension contribution.
- (6) Includes 16 million shares held by the Employee Benefit Trust (31 March 2020 - 18 million shares; 31 December 2019 - 15 million shares).

## Summary consolidated income statement for the period ended 30 June 2020

|  | Half year ended |                 | Quarter ended   |                  |                 |
|--|-----------------|-----------------|-----------------|------------------|-----------------|
|  | 30 June<br>2020 | 30 June<br>2019 | 30 June<br>2020 | 31 March<br>2020 | 30 June<br>2019 |
| <b>Net interest income</b>                                   | <b>3,852</b>    | 4,004           | <b>1,910</b>    | 1,942            | 1,971           |
| Own credit adjustments                                       | 53              | (46)            | (102)           | 155              | (3)             |
| Strategic disposals  | -               | 1,035           | -               | -                | 1,035           |
| Other non-interest income                                    | 1,933           | 2,124           | 868             | 1,065            | 1,077           |
| <b>Non-interest income</b>                                   | <b>1,986</b>    | 3,113           | <b>766</b>      | 1,220            | 2,109           |
| <b>Total income</b>  | <b>5,838</b>    | 7,117           | <b>2,676</b>    | 3,162            | 4,080           |
| Litigation and conduct costs                                 | 89              | (60)            | 85              | 4                | (55)            |
| Strategic costs  | (464)           | (629)           | (333)           | (131)            | (434)           |
| Other expenses   | (3,375)         | (3,411)         | (1,661)         | (1,714)          | (1,673)         |
| <b>Operating expenses</b>                                    | <b>(3,750)</b>  | (4,100)         | <b>(1,909)</b>  | (1,841)          | (2,162)         |
| <b>Profit before impairment losses</b>                       | <b>2,088</b>    | 3,017           | <b>767</b>      | 1,321            | 1,918           |
| Impairment losses  | (2,858)         | (323)           | (2,056)         | (802)            | (237)           |
| <b>Operating (loss)/profit before tax</b>                    | <b>(770)</b>    | 2,694           | <b>(1,289)</b>  | 519              | 1,681           |
| Tax credit/(charge)  | 208             | (194)           | 396             | (188)            | 22              |
| <b>(Loss)/profit for the period</b>                          | <b>(562)</b>    | 2,500           | <b>(893)</b>    | 331              | 1,703           |
| <b>Attributable to:</b>                                      |                 |                 |                 |                  |                 |
| Ordinary shareholders  | (705)           | 2,038           | (993)           | 288              | 1,331           |
| Preference shareholders                                      | 16              | 20              | 8               | 8                | 10              |
| Paid-in equity shareholders                                  | 192             | 182             | 95              | 97               | 92              |
| Non-controlling interests                                    | (65)            | 260             | (3)             | (62)             | 270             |
| <b>Notable items within total income</b>                     |                 |                 |                 |                  |                 |
| Alawwal bank merger gain in NatWest Markets                  | -               | 444             | -               | -                | 444             |
| FX recycling (loss)/gain in Central items & other            | (103)           | 290             | (39)            | (64)             | 290             |
| Legacy liability release in Central items & other            | -               | 256             | -               | -                | 256             |
| Liquidity Asset Bond sale gain                               | 110             | 11              | 17              | 93               | 1               |
| IFRS volatility in Central items & other                     | (11)            | 17              | 55              | (66)             | 21              |
| NatWest Markets asset disposals/strategic risk reduction (1) | (63)            | (27)            | (63)            | -                | (23)            |

Note:

(1) Asset disposals/strategic risk reduction in 2020 relates to the cost of exiting positions and the impact of risk reduction transactions entered into, in respect of the strategic announcement on 14 February 2020. Prior period comparatives refer to the previously disclosed NatWest Markets legacy business disposal losses.

## Income statement overview

### H1 2020 compared with H1 2019

- Income across the retail and commercial businesses decreased by 9.0% reflecting the contraction of the yield curve, mortgage margin dilution, lower business activity and lower consumer spending, resulting from government measures in response to Covid-19. Partially offsetting, we have seen strong gross new mortgage lending in UK Personal Banking with drawdowns against UK Government lending initiatives and increased utilisation of revolving credit facilities (RCFs) in Commercial Banking, whilst maintaining a disciplined approach to risk.
- NatWest Markets income excluding asset disposals/strategic risk reduction, OCA and notable items increased by 44.4% reflecting increased customer activity as the market reacted to the spread of the Covid-19 virus, partially offset by the impact of credit market write-downs.
- Litigation and conduct costs included a £250 million PPI release reflecting lower than predicted valid complaints volumes, partially offset by other charges.
- Strategic costs of £464 million in H1 2020 included an £83 million charge related to technology spend, £155 million related to property charges and a £120 million direct charge in NatWest Markets primarily related to restructuring activity.
- Other expenses, excluding OLD, decreased by £41 million, or 1.2%, and headcount reduced by c.3,900, or 5.9%. We have maintained a focus on driving underlying cost reductions and efficiencies across the business through the continued shift from physical to digital, process improvements and property savings.
- The net impairment loss of £2,858 million, 159 basis points of gross customer loans, reflected the deterioration of the economic outlook. As a result the ECL coverage ratio across the Personal and Wholesale portfolios increased from 1.02% to 1.72%.

### Q2 2020 compared with Q1 2020

- Income across the retail and commercial businesses decreased by £176 million reflecting the contraction of the yield curve, reduced business activity and lower consumer spending, resulting from government measures in response to Covid-19. Partially offsetting, we have seen strong balance growth in Commercial Banking, largely relating to drawdowns against UK Government lending initiatives.
- NatWest Markets income excluding asset disposals/strategic risk reduction and OCA increased by £50 million. Income from Financing increased as credit markets stabilised, supported by central bank actions, whilst Rates and Currencies decreased as the volatility seen towards the end of Q1 2020 eased.
- Strategic costs of £333 million in Q2 2020 included a £44 million charge related to technology spend, £148 million related to property charges and an £86 million direct charge in NatWest Markets primarily related to restructuring activity.
- Other expenses, excluding OLD, decreased by £54 million reflecting reduced investment spend and other cost saving initiatives. Headcount decreased by c.500.
- The net impairment loss of £2,056 million, 229 basis points of gross customer loans, reflected the deterioration of the economic outlook. As a result the ECL coverage ratio across the Personal and Wholesale portfolios increased from 1.18% to 1.72%.

### Q2 2020 compared with Q2 2019

- Income across the retail and commercial businesses decreased by 11.4% whilst NatWest Markets income excluding asset disposals/strategic risk reduction, OCA and notable items increased by 62.2%.
- Other expenses, excluding OLD, decreased by £15 million, or 0.9%.

**Business performance summary**  
**UK Personal Banking**

|                     | Half year ended    |                    | Quarter ended      |                     |                    |
|---------------------|--------------------|--------------------|--------------------|---------------------|--------------------|
|                     | 30 June 2020<br>£m | 30 June 2019<br>£m | 30 June 2020<br>£m | 31 March 2020<br>£m | 30 June 2019<br>£m |
| Total income        | 2,185              | 2,447              | 1,035              | 1,150               | 1,202              |
| Operating expenses  | (1,075)            | (1,229)            | (546)              | (529)               | (594)              |
| Impairment losses   | (657)              | (181)              | (360)              | (297)               | (69)               |
| Operating profit    | 453                | 1,037              | 129                | 324                 | 539                |
| Return on equity    | 10.7%              | 25.6%              | 5.7%               | 15.5%               | 26.5%              |
| Net interest margin | 2.23%              | 2.57%              | 2.18%              | 2.28%               | 2.51%              |
| Cost:income ratio   | 49.2%              | 50.2%              | 52.8%              | 46.0%               | 49.4%              |

|   | As at               |                      |                         |
|---|---------------------|----------------------|-------------------------|
|   | 30 June 2020<br>£bn | 31 March 2020<br>£bn | 31 December 2019<br>£bn |
| Net loans to customers (amortised cost) | 164.5               | 163.7                | 158.9                   |
| Customer deposits                       | 161.0               | 152.8                | 150.3                   |
| RWAs                                    | 36.7                | 38.2                 | 37.8                    |
| Loan impairment rate                    | 87bps               | 72bps                | 20bps                   |

Note:

- (1) Comparisons with prior periods are impacted by the transfer of the Private Client Advice business to Private Banking from 1 January 2020. The net impact on H1 2019 operating profit would have been to decrease total income by £22 million and operating expenses by £4 million. The net impact on the H1 2019 balance sheet would have been to decrease customer deposits by £0.3 billion. The net impact on Q2 2019 operating profit would have been to decrease total income by £11 million and operating expenses by £2 million. The net impact on the Q4 2019 balance sheet would have been to decrease customer deposits by £0.2 billion.

UK Personal Banking continues to support customers whose income has been impacted by Covid-19. We had 240,000 mortgage customers request an initial three month mortgage repayment holiday, representing 20% of the book by volume. To support mortgage customers who continue to be impacted, we are offering a range of options from a full payment holiday to part payments for a further three months; of those who have rolled off their initial repayment holiday, and who have reviewed their options and taken action, approximately one third have requested a further extension. Additionally, we offered the option of three month payment deferrals on loans, with 72,000, or 7%, of loan customers taking up the offer.

**H1 2020 compared with H1 2019**

- Total income decreased by £262 million, or 10.7%, due to lower deposit hedge income, mortgage margin dilution and lower fee income on overdrafts, partially offset by strong balance growth.
- Excluding strategic, litigation and conduct costs, operating expenses increased by £17 million, or 1.5%, due to one-off releases in Q2 2019 partially offset by a reduction in staff costs associated with a 9.3% reduction in headcount.
- Litigation and conduct costs include a £250 million PPI release reflecting lower than predicted valid complaints volumes.
- Impairment losses of £657 million increased by £476 million primarily reflecting stage two charges linked to a forecast rise in unemployment and decline in HPI under a deteriorating economic outlook.
- Net loans to customers increased by £12.6 billion, or 8.3%, as a result of strong gross new mortgage lending and lower redemptions. Gross new mortgage lending was £16.5 billion with market flow share of approximately 14%, supporting a stock share of approximately 10.5%. Personal advances and cards reduced by £0.2 billion and £0.3 billion respectively, reflecting lower spend and higher repayments as a result of Covid-19.
- Customer deposits increased by £13.5 billion, or 9.2%, with stronger than normal growth as government backed initiatives for Covid-19, combined with lockdown restrictions, resulted in lower customer spend and increased savings.
- RWAs remained broadly stable as mortgage lending growth was largely offset by lower unsecured balances, with no pro-cyclicality evident to date.

**Q2 2020 compared with Q1 2020**

- Total income decreased by £115 million due to lower overdraft fees, Covid-19 support measures, significantly reduced card spend, which resulted in lower fees and lower unsecured balances, and the non-repeat of the annual insurance profit share. Net interest margin decreased by 10 basis points reflecting lower personal advances and cards balances and continued structural pressure in the mortgage business, as blended front book margins of around 124 basis points remain lower than the back book margin of approximately 138 basis points, partially offset by lower customer deposit rates payable. In the latter part of June 2020 blended front book application margins were around 130 basis points as spreads in the market continued to widen.
- Impairment losses of £360 million increased by £63 million, primarily reflecting stage two charges linked to a forecast rise in unemployment and decline in HPI under a deteriorating economic outlook.
- Net loans to customers increased by £0.8 billion due to mortgage growth of £1.9 billion, with lower consumer demand and increased repayments impacting unsecured. Personal advances and cards reduced by £0.4 billion respectively, as customers spent less and made repayments.
- Customer deposits increased by £8.2 billion as customer spend reduced and savings increased as a result of Covid-19.

**Q2 2020 compared with Q2 2019**

- Total income decreased by £167 million, or 13.9%, primarily reflecting lower overdraft fees, lower deposit hedge income and mortgage margin dilution.

## Business performance summary

### Ulster Bank RoI

|                            | Half year ended       |                       | Quarter ended         |                        |                       |
|----------------------------|-----------------------|-----------------------|-----------------------|------------------------|-----------------------|
|                            | 30 June<br>2020<br>€m | 30 June<br>2019<br>€m | 30 June<br>2020<br>€m | 31 March<br>2020<br>€m | 30 June<br>2019<br>€m |
| Total income               | 285                   | 324                   | 135                   | 150                    | 158                   |
| Operating expenses         | (283)                 | (322)                 | (140)                 | (143)                  | (166)                 |
| Impairment losses/releases | (278)                 | 24                    | (246)                 | (32)                   | 11                    |
| Operating (loss)/profit    | (276)                 | 26                    | (251)                 | (25)                   | 3                     |
| Return on equity           | (24.2%)               | 2.1%                  | (44.5%)               | (4.2%)                 | 0.6%                  |
| Net interest margin        | 1.52%                 | 1.63%                 | 1.48%                 | 1.56%                  | 1.62%                 |
| Cost:income ratio          | 98.4%                 | 99.3%                 | 101.7%                | 95.3%                  | 105.1%                |

  

|   | As at                  |                         |                            |
|---|------------------------|-------------------------|----------------------------|
|   | 30 June<br>2020<br>€bn | 31 March<br>2020<br>€bn | 31 December<br>2019<br>€bn |
| Net loans to customers (amortised cost) | 20.5                   | 21.2                    | 21.4                       |
| Customer deposits                       | 22.0                   | 21.9                    | 21.7                       |
| RWAs                                    | 14.1                   | 14.4                    | 15.3                       |
| Loan impairment rate                    | 460bps                 | 58bps                   | 9bps                       |

Ulster Bank RoI continues to support all customers, including those who have been impacted by Covid-19. We have launched our digital Home Buying Platform, supporting customers to complete a mortgage application online, temporarily reduced our overdraft charges and we continue to support our vulnerable and elderly customers through our Companion card, dedicated helpline, priority banking hours and proactive outbound care calls. We have also provided mortgage payment breaks for approximately 12,000 customers, with over 4,000 extensions approved as at 30 June 2020. In our commercial business, we have provided payment breaks for approximately 3,000 customers and we continue to work closely with the Irish Government in providing customers with assistance through existing support schemes and the Credit Guarantee Scheme launched in July 2020.

#### H1 2020 compared with H1 2019

- Total income decreased by €39 million, or 12.0%, reflecting lower business activity resulting from the impact of Covid-19 on our customers and our business, the non-repeat of €11 million income relating to the restructure of interest rate swaps on free funds, and interest rate and foreign exchange movements.
- Excluding strategic, litigation and conduct costs, operating expenses decreased by €6 million, or 2.2%, reflecting a 9.7% headcount reduction, including the scale down of our services and other functional teams, and lower project costs, which in H1 2019 included costs related to the improvement of the Ulster Bank RoI risk management framework.
- Impairment losses of €278 million increased by €302 million due to the impact across all portfolios from the deterioration in the economic outlook caused by Covid-19.
- Net loans to customers decreased by €0.7 billion, or 3.3%, which included the net de-recognition of €0.2 billion of non-performing loans (NPL) from a sale agreed in Q4 2019, and an increase in loan provisions against the remaining loans. Gross new lending of €1.1 billion was 29.0% lower, with Q2 2020 impacted by lower demand primarily related to Covid-19 factors.
- Customer deposits increased by €0.7 billion, or 3.3%, supporting a reduction in the loan:deposit ratio to 93% from 100%.
- RWAs decreased by €1.7 billion, or 10.8%, largely due to model recalibrations and the de-recognition of NPLs in H1 2020.

#### Q2 2020 compared with Q1 2020

- Total income decreased by €15 million mainly due to lower personal and commercial fees. Net interest margin decreased by 8 basis points reflecting the impact of negative rates on increased liquid assets.
- Excluding strategic, litigation and conduct costs, operating expenses were €3 million lower due to reduced marketing and administration costs and foreign exchange movements.
- Impairment losses increased by €214 million due to the deterioration in the economic outlook.
- Net loans to customers decreased by €0.7 billion due to an increase in provisions together with loan repayments outweighing gross new lending, which was adversely impacted by lower demand largely as a result of Covid-19. Gross new lending was €0.4 billion, €0.3 billion lower than Q1 2020.
- RWAs decreased by €0.3 billion due to model recalibrations and the impact of the NPL sale.

#### Q2 2020 compared with Q2 2019

- Total income decreased by €23 million reflecting the impact of Covid-19, particularly on fee income due to lower transaction levels and implementation of waivers on both personal and commercial products.

## Business performance summary

### Commercial Banking

|                         | Half year ended       |                       | Quarter ended         |                        |                       |
|-------------------------|-----------------------|-----------------------|-----------------------|------------------------|-----------------------|
|                         | 30 June<br>2020<br>£m | 30 June<br>2019<br>£m | 30 June<br>2020<br>£m | 31 March<br>2020<br>£m | 30 June<br>2019<br>£m |
| Total income            | 2,003                 | 2,165                 | 995                   | 1,008                  | 1,083                 |
| Operating expenses      | (1,221)               | (1,262)               | (611)                 | (610)                  | (622)                 |
| Impairment losses       | (1,790)               | (202)                 | (1,355)               | (435)                  | (197)                 |
| Operating (loss)/profit | (1,008)               | 701                   | (971)                 | (37)                   | 264                   |
| Return on equity        | (17.9%)               | 8.8%                  | (32.5%)               | (2.5%)                 | 6.2%                  |
| Net interest margin     | 1.76%                 | 1.98%                 | 1.70%                 | 1.83%                  | 1.97%                 |
| Cost:income ratio       | 59.5%                 | 56.9%                 | 59.9%                 | 59.1%                  | 56.1%                 |

  

|   | As at                  |                         |                            |
|---|------------------------|-------------------------|----------------------------|
|   | 30 June<br>2020<br>£bn | 31 March<br>2020<br>£bn | 31 December<br>2019<br>£bn |
| Net loans to customers (amortised cost) | 112.0                  | 109.2                   | 101.2                      |
| Customer deposits                       | 159.6                  | 143.9                   | 135.0                      |
| RWAs                                    | 78.3                   | 76.9                    | 72.5                       |
| Loan impairment rate                    | 472bps                 | 157bps                  | 32bps                      |

Commercial Banking continues to support customers through a comprehensive package of initiatives including participation in the UK Government's financial support schemes. As at H1 2020, £6.1 billion BBLS loans, £3.2 billion of CBILS loans and £0.7 billion of CLBILS loans had been approved and payment holidays, for up to twelve months, provided on c.71,000 customer accounts, representing c.12% of the lending book by value.

#### H1 2020 compared with H1 2019

- Total income decreased by £162 million, or 7.5%, reflecting £108 million lower non interest income due to reduced business activity and £54 million lower net interest income as a result of the contraction of the yield curve, partially offset by balance sheet growth.
- Excluding strategic, litigation and conduct costs, operating expenses increased by £41 million, or 3.7%, reflecting a number of one-off releases in Q2 2019, higher innovation spend and a £5 million increase in OLD, partially offset by a 1.9% reduction in headcount following operating model efficiencies in H2 2019 and lower non staff costs.
- Impairment losses of £1,790 million primarily from stage one and two charges reflecting the deterioration in the economic outlook, with total stage three charges of £236 million, including a small number of single name charges.
- Net loans to customers increased by £10.6 billion, or 10.5%, with a £10.8 billion increase in H1 2020 reflecting drawdowns against UK Government lending schemes and £4.1 billion increased RCF utilisation.
- Customer deposits increased by £26.2 billion, or 19.6%, principally due to a £24.6 billion increase in H1 2020 as customers sought to retain liquidity in light of Covid-19 uncertainty.
- RWAs increased by £0.5 billion, or 0.6%, due to increased lending volumes and risk parameter changes, partially offset by a £4.5 billion reduction related to model improvements and active capital management, with limited procyclicality evident to date

#### Q2 2020 compared with Q1 2020

- Total income decreased by £13 million as lower deposit funding benefits and reduced business activity offset balance sheet growth. Net interest margin decreased by 13 basis points mainly reflecting lower deposit funding benefits and higher liquidity portfolio costs.
- Excluding strategic, litigation and conduct costs, operating expenses remained broadly stable as higher back office operations costs and a £1 million increase in OLD were partially offset by lower non-staff costs.
- Impairment losses of £1,355 million primarily from stage one and two charges reflecting the deterioration in the economic outlook, with total stage three charges of £169 million, including a small number of single name charges.
- Net loans to customers increased by £2.8 billion reflecting drawdowns against UK Government lending schemes, including £5.8 billion related to BBLS, £2.3 billion related to CBILS and £0.2 billion related to CLBILS, partially offset by £2.3 billion net RCF repayments, lower specialised business lending and increased loan provisions. RCF utilisation decreased to c.32% of committed facilities following increased drawdowns in March and April 2020, but remained above pre-Covid-19 levels.
- Customer deposits increased by £15.7 billion as customers sought to retain liquidity in light of Covid-19 uncertainty, including the retention of UK Government lending scheme drawdowns.
- RWAs increased by £1.4 billion due to increased lending volumes, risk parameter changes and business transfers of £0.4 billion from NatWest Markets.

#### Q2 2020 compared with Q2 2019

- Total income decreased by £88 million, or 8.1%, reflecting reduced business activity and the contraction of the yield curve, partially offset by balance sheet growth and an £8 million fair value and disposal gain in Q2 2020, compared with a £15 million loss in Q2 2019.
- Excluding strategic, litigation and conduct costs, operating expenses increased by £47 million, or 9.0%, reflecting a number of one-off releases in Q2 2019, higher innovation spend and £3 million higher OLD, partially offset by a 1.9% reduction in headcount following operating model efficiencies in H2 2019 and lower non-staff costs.

## Business performance summary

### Private Banking (commentary adjusted for transfers)

|                              | Half year ended |              | Quarter ended |               |              |
|------------------------------|-----------------|--------------|---------------|---------------|--------------|
|                              | 30 June 2020    | 30 June 2019 | 30 June 2020  | 31 March 2020 | 30 June 2019 |
|                              | £m              | £m           | £m            | £m            | £m           |
| Total income                 | 392             | 384          | 191           | 201           | 191          |
| Operating expenses           | (252)           | (232)        | (129)         | (123)         | (115)        |
| Impairment (losses)/releases | (56)            | 3            | (27)          | (29)          | (1)          |
| Operating profit             | 84              | 155          | 35            | 49            | 75           |
| Return on equity             | 8.2%            | 16.6%        | 6.6%          | 9.8%          | 15.9%        |
| Net interest margin          | 2.20%           | 2.48%        | 2.14%         | 2.25%         | 2.44%        |
| Cost:income ratio            | 64.3%           | 60.4%        | 67.5%         | 61.2%         | 60.2%        |

|   | As at        |               |                  |
|---|--------------|---------------|------------------|
|   | 30 June 2020 | 31 March 2020 | 31 December 2019 |
|   | £bn          | £bn           | £bn              |
| Net loans to customers (amortised cost)                 | 16.0         | 15.8          | 15.5             |
| Customer deposits                                       | 29.8         | 29.0          | 28.4             |
| RWAs  | 10.4         | 10.3          | 10.1             |
| Assets Under Management (AUMs)                          | 27.1         | 24.3          | 23.2             |
| Assets Under Administration (AUAs) <sup>(1)</sup>       | 2.7          | 2.4           | 7.2              |
| Total Assets Under Management and Administration (AUMA) | 29.8         | 26.7          | 30.4             |
| Loan impairment rate                                    | 67bps        | 73bps         | (3)bps           |

#### Notes:

- (1) Private Banking manages assets under management portfolios on behalf of UK Personal Banking and RBSI and receives a management fee in respect of providing this service.
- (2) Comparisons with prior periods are impacted by the transfer of the Private Client Advice business to Private Banking from 1 January 2020. The net impact on H1 2019 operating profit would have been to increase total income by £22 million and operating expenses by £4 million. The net impact on the H1 2019 balance sheet would have been to increase AUMs by £4.5 billion and customer deposits by £0.3 billion. The net impact on Q2 2019 operating profit would have been to increase total income by £11 million and operating expenses by £2 million. The net impact on the Q4 2019 balance sheet would have been to increase AUMs by £4.6 billion and customer deposits by £0.2 billion. Variances in the commentary below have been adjusted for the impact of this transfer.

Private Banking remains committed to supporting clients through a range of initiatives during this period of significant uncertainty, including the provision of mortgage and loan repayment breaks and via participation in the UK Government's CBILS financial support scheme, with £146 million approved as at H1 2020.

#### H1 2020 compared with H1 2019

- Total income decreased by £14 million, or 3.4%, primarily reflecting £11 million lower net interest income due to lower deposit income and asset margin compression, partially offset by balance sheet growth.
- Excluding strategic, litigation and conduct costs, operating expenses increased by £24 million, or 11.1%, reflecting higher investment spend and a number of one-off items.
- Impairment losses of £56 million, mainly reflected stage one and two charges linked to the deterioration of the economic outlook.
- Net loans to customers increased by £1.3 billion, or 8.8%, reflecting mortgage lending and other loans growth. RWAs increased by £0.7 billion, or 7.2%, primarily reflecting increased lending volumes.
- Customer deposits increased by £1.5 billion, or 5.3%, principally due to a £1.2 billion increase in H1 2020 reflecting an increase in instant access savings and current accounts.
- Total AUMs overseen by Private Banking increased by £0.9 billion, or 3.1%, reflecting net new business inflows of £1.2 billion partially offset by adverse market movements of £0.3 billion.

#### Q2 2020 compared with Q1 2020

- Total income decreased by £10 million, primarily reflecting asset margin compression and a reduction in fee income, partially offset by balance sheet growth. Net interest margin decreased by 11 basis points mainly due to asset margin compression, lower deposit income and higher liquidity portfolio costs.
- Excluding strategic, litigation and conduct costs, operating expenses increased by £5 million reflecting higher investment spend and a number of one-off items.
- Impairment losses of £27 million, mainly reflected stage one and two charges linked to the deterioration of the economic outlook, partially offset by a single name release.
- Customer deposits increased by £0.8 billion reflecting an increase in instant access savings and current accounts.
- Total AUMs overseen by Private Banking increased by £3.1 billion, reflecting positive investment performance of £2.9 billion and net new business inflows of £0.2 billion.

#### Q2 2020 compared with Q2 2019

- Total income decreased by £11 million, or 5.4%, primarily reflecting lower deposit income, asset margin compression and a reduction in fee income, partially offset by balance sheet growth.
- Excluding strategic, litigation and conduct costs, operating expenses increased by £18 million, or 17.1%, primarily reflecting higher investment spend and a number of one-off items.

**Business performance summary**  
**RBS International**

|                              | Half year ended |         | Quarter ended |          |         |
|------------------------------|-----------------|---------|---------------|----------|---------|
|                              | 30 June         | 30 June | 30 June       | 31 March | 30 June |
|                              | 2020            | 2019    | 2020          | 2020     | 2019    |
|                              | £m              | £m      | £m            | £m       | £m      |
| Total income                 | 259             | 310     | 115           | 144      | 159     |
| Operating expenses           | (126)           | (119)   | (65)          | (61)     | (60)    |
| Impairment (losses)/releases | (46)            | 3       | (31)          | (15)     | 2       |
| Operating profit             | 87              | 194     | 19            | 68       | 101     |
| Return on equity             | 11.8%           | 29.7%   | 4.3%          | 19.4%    | 30.8%   |
| Net interest margin          | 1.30%           | 1.69%   | 1.15%         | 1.45%    | 1.68%   |
| Cost:income ratio            | 48.6%           | 38.4%   | 56.5%         | 42.4%    | 37.7%   |

  

|   | As at   |          |             |
|---|---------|----------|-------------|
|   | 30 June | 31 March | 31 December |
|   | 2020    | 2020     | 2019        |
|   | £bn     | £bn      | £bn         |
| Net loans to customers (amortised cost) | 12.7    | 13.6     | 14.1        |
| Customer deposits                       | 29.5    | 32.3     | 30.1        |
| RWAs                                    | 6.8     | 6.8      | 6.5         |
| Loan impairment rate                    | 97bps   | 44bps    | 14bps       |

During H1 2020, RBS International supported 1,282 personal customers with mortgage repayment breaks, reflecting a mortgage value of £275 million, and 418 business customers with working capital facilities, reflecting a value of £452 million, while continuing to suspend a range of fees and charges for its personal and business customers.

**H1 2020 compared with H1 2019**

- Total income decreased by £51 million, or 16.5%, primarily due to the impact of interest rate reductions on deposit income as well as £2 million lower payments income with the waiving of personal and commercial banking fees in Q2 2020 to support customers during Covid-19.
- Excluding strategic, litigation and conduct costs, operating expenses increased by £12 million, or 11.0%, mainly due to £6 million higher investment spend to enhance the digital proposition, £2 million Covid-19 incident costs and £3 million higher technology costs.
- Impairment losses of £46 million included £25 million stage one and stage two charges reflecting the deterioration in the economic outlook and a £19 million charge related to a single client.
- Net loans to customers decreased by £0.9 billion, or 6.6%, as Institutional Banking customers repaid facilities to position themselves in the uncertain environment.
- Customer deposits increased by £1.4 billion, or 5.0%, as Institutional Banking customers sought to build liquidity in response to Covid-19 uncertainty.

**Q2 2020 compared with Q1 2020**

- Total income decreased £29 million primarily due to £23 million lower deposit income resulting from the full quarter impact of the central bank rate reductions and £4 million lower lending income. Net interest margin decreased by 30 basis points due to lower deposit funding benefits as a result of interest rate changes by central banks.
- Impairment losses of £31 million included £17 million stage one and two charges reflecting the deterioration in the economic outlook and a £13 million charge related to a single client.
- Net loans to customers decreased by £0.9 billion as Institutional Banking customers responded to the uncertain economic outlook by repaying facilities.
- Customer deposits decreased £2.8 billion due to lower call balances in the Institutional Banking sector as significant Q1 2020 inflows were used to fund loan repayments. Deposits in Local Banking increased by £0.4 billion, most notably in Local Corporate and Everyday Banking.

**Q2 2020 compared with Q2 2019**

- Total income decreased by £44 million, or 27.7%, due to lower deposit funding benefits, and lower fee income reflecting the economic response to Covid-19 with central bank rate reductions and fee waivers.
- Excluding strategic, litigation and conduct costs, operating expenses increased by £7 million, or 13.0%, reflecting higher investment spend and Covid-19 incident costs.

**Business performance summary**  
**NatWest Markets<sup>(1)</sup>**

|  | Half year ended       |                       | Quarter ended          |                         |                            |
|--|-----------------------|-----------------------|------------------------|-------------------------|----------------------------|
|  | 30 June<br>2020<br>£m | 30 June<br>2019<br>£m | 30 June<br>2020<br>£m  | 31 March<br>2020<br>£m  | 30 June<br>2019<br>£m      |
| Total income   | 816                   | 942                   | 273                    | 543                     | 686                        |
| of which:  |                       |                       |                        |                         |                            |
| - Income excluding asset disposals/strategic risk reduction and own credit adjustments | 826                   | 989                   | 438                    | 388                     | 691                        |
| - Asset disposals/strategic risk reduction (2)   | (63)                  | -                     | (63)                   | -                       | -                          |
| - Own credit adjustments   | 53                    | (47)                  | (102)                  | 155                     | (5)                        |
| Operating expenses   | (707)                 | (678)                 | (365)                  | (342)                   | (344)                      |
| Impairment (losses)/releases   | (40)                  | 36                    | (45)                   | 5                       | 20                         |
| Operating profit/(loss)  | 69                    | 300                   | (137)                  | 206                     | 362                        |
| Return on equity   | 0.8%                  | 1.0%                  | (7.1%)                 | 8.7%                    | 4.4%                       |
| Cost:income ratio  | 86.6%                 | 72.0%                 | 133.7%                 | 63.0%                   | 50.1%                      |
|  |                       |                       |                        | As at                   |                            |
|  |                       |                       | 30 June<br>2020<br>£bn | 31 March<br>2020<br>£bn | 31 December<br>2019<br>£bn |
| Funded Assets  |                       |                       | 122.9                  | 129.6                   | 116.2                      |
| RWAs   |                       |                       | 35.1                   | 38.9                    | 37.9                       |

Notes:

- (1) The NatWest Markets operating segment is not the same as the NatWest Markets Plc legal entity (NWM Plc) or group (NWM or NWM Group). For 2019, NWM Group includes NatWest Markets N.V. (NWM N.V.) from 29 November 2019 only. For periods prior to Q4 2019, NWM N.V. was excluded from the NWM Group. In both 2019 and 2020 the NatWest Markets segment excludes the Central items & other segment.
- (2) Asset disposals/strategic risk reduction in 2020 relates to the cost of exiting positions and the impact of risk reduction transactions entered into, in respect of the strategic announcement on 14 February 2020.

**Progress on strategic change**

- NatWest Markets continues to progress its strategy to refocus towards NatWest Group's corporate and institutional customers and reduce RWAs. During H1 2020, further refinements have been made to simplify the customer product suite, including exiting the Custom Index Trading business and the reduction of the third party market making offering in flow asset backed securities (ABS), residential mortgage backed securities (RMBS) and collateralised loan obligations (CLO). Additionally, NatWest Markets selected BNP Paribas as a strategic partner for the provision of execution and clearing of listed derivatives, following the decision to no longer offer these services for certain exchange traded derivatives, as announced in Q1 2020.
- NatWest Markets continues to identify efficiency improvements. During Q2 2020 changes were made to the regional operating models in the US and APAC and actions were taken to drive closer alignment with NatWest Group, such as leveraging NatWest Group Technology infrastructure.
- NatWest Markets has also actively identified and progressed RWA reduction, with a number of asset exits completed during Q2 2020. NatWest Markets continues to target an RWA reduction to £32 billion at the end of 2020.

**H1 2020 compared with H1 2019**

- Total income decreased by £126 million, or 13.4%, reflecting a £444 million gain from the merger of Alawwal bank with Saudi British Bank (SABB) in H1 2019, partially offset by heightened customer activity and OCA movements. An OCA credit of £53 million compared with a £47 million charge in H1 2019 reflected the significant widening of credit spreads.
- Income excluding asset disposals/strategic risk reduction, OCA and notable items increased by £254 million, or 44.4%, reflecting increased customer activity as the market reacted to the spread of the Covid-19 virus, resulting in higher levels of primary issuance from governments and increased secondary market activity in both the Rates and Currencies businesses, partially offset by the impact of credit market write-downs.
- Excluding strategic, litigation and conduct costs, operating expenses decreased by £31 million, or 5.2%, primarily reflecting lower back office operational costs and initial reductions following the strategic announcement in February 2020.
- RWAs decreased by £6.3 billion, or 15.2%, reflecting lower levels of counterparty and market risk which, despite recent turbulence, have trended downwards as the business seeks to reduce its RWAs.

**Q2 2020 compared with Q1 2020**

- Income excluding asset disposals/strategic risk reduction and OCA increased by £50 million. Income from Financing increased as credit markets stabilised, supported by central bank actions, whilst Rates and Currencies decreased as the volatility seen towards the end of Q1 2020 eased. Asset disposal/strategic risk reduction losses of £63 million included a £40 million loss related to a single significant transaction.
- Excluding strategic, litigation and conduct costs, operating expenses decreased by £27 million reflecting initial reductions following the strategic announcement in February 2020.
- RWAs decreased by £3.8 billion as the business works towards its full year RWA target. Counterparty credit risk decreased by £1.5 billion reflecting the exit of specific positions and market risk decreased by £1.5 billion, as markets normalised. A reduction in credit risk of £0.8 billion included £0.4 billion of business transfers to Commercial Banking.

**Q2 2020 compared with Q2 2019**

- Income excluding asset disposals/strategic risk reduction, OCA and notable items increased by £168 million, or 62.2%, reflecting heightened levels of customer activity in Q2 2020, as markets reacted to the Covid-19 pandemic.

## Business performance summary

### Central items & other

|                             | Half year ended       |                       | Quarter ended         |                        |                       |
|-----------------------------|-----------------------|-----------------------|-----------------------|------------------------|-----------------------|
|                             | 30 June<br>2020<br>£m | 30 June<br>2019<br>£m | 30 June<br>2020<br>£m | 31 March<br>2020<br>£m | 30 June<br>2019<br>£m |
| Central items not allocated | (216)                 | 284                   | (146)                 | (70)                   | 337                   |

- Central items not allocated represented a £216 million operating loss in H1 2020 principally due to property related strategic costs, litigation and conduct charges and other treasury income. This compares with a £284 million gain in H1 2019 which primarily reflected FX recycling gains of £290 million and a legacy liability release of £256 million, both relating to the Alawwal bank merger.

## Segment performance

Half year ended 30 June 2020

|  | UK Personal<br>Banking<br>£m | Ulster<br>Bank Rol<br>£m | Commercial<br>Banking<br>£m | Private<br>Banking<br>£m | RBS<br>International<br>£m | NatWest<br>Markets<br>£m | Central<br>items &<br>other <sup>(1)</sup><br>£m | Total<br>NatWest<br>Group<br>£m |
|--|------------------------------|--------------------------|-----------------------------|--------------------------|----------------------------|--------------------------|--|---------------------------------|
| <b>Income statement</b>                          |                              |                          |                             |                          |                            |                          |  |                                 |
| Net interest income                              | 1,982                        | 194                      | 1,370                       | 251                      | 201                        | (34)                     | (112)  | 3,852                           |
| Other non-interest income                        | 203                          | 55                       | 633                         | 141                      | 58                         | 797                      | 46   | 1,933                           |
| Own credit adjustments                           | -                            | -                        | -                           | -                        | -                          | 53                       | -  | 53                              |
| Total income                                     | 2,185                        | 249                      | 2,003                       | 392                      | 259                        | 816                      | (66)   | 5,838                           |
| Direct expenses - staff costs                    | (280)                        | (100)                    | (360)                       | (93)                     | (65)                       | (326)                    | (572)  | (1,796)                         |
| - other costs                                    | (104)                        | (42)                     | (149)                       | (47)                     | (27)                       | (94)                     | (1,116)  | (1,579)                         |
| Indirect expenses                                | (785)                        | (92)                     | (630)                       | (101)                    | (29)                       | (149)                    | 1,786  | -                               |
| Strategic costs - direct                         | (1)                          | (4)                      | (5)                         | -                        | (3)                        | (120)                    | (331)  | (464)                           |
| - indirect                                       | (103)                        | (8)                      | (70)                        | (10)                     | (5)                        | (16)                     | 212  | -                               |
| Litigation and conduct costs                     | 198                          | 1                        | (7)                         | (1)                      | 3                          | (2)                      | (103)  | 89                              |
| Operating expenses                               | (1,075)                      | (245)                    | (1,221)                     | (252)                    | (126)                      | (707)                    | (124)  | (3,750)                         |
| Operating profit/(loss) before impairment losses | 1,110                        | 4                        | 782                         | 140                      | 133                        | 109                      | (190)  | 2,088                           |
| Impairment losses                                | (657)                        | (243)                    | (1,790)                     | (56)                     | (46)                       | (40)                     | (26)   | (2,858)                         |
| Operating profit/(loss)                          | 453                          | (239)                    | (1,008)                     | 84                       | 87                         | 69                       | (216)  | (770)                           |
| <b>Additional information</b>                    |                              |                          |                             |                          |                            |                          |  |                                 |
| Return on equity <sup>(2)</sup>                  | 10.7%                        | (24.2%)                  | (17.9%)                     | 8.2%                     | 11.8%                      | 0.8%                     | nm   | (4.4%)                          |
| Cost:income ratio <sup>(2)</sup>                 | 49.2%                        | 98.4%                    | 59.5%                       | 64.3%                    | 48.6%                      | 86.6%                    | nm   | 63.8%                           |
| Total assets (£bn)                               | 187.1                        | 27.6                     | 186.0                       | 23.9                     | 31.5                       | 303.8                    | 47.0   | 806.9                           |
| Funded assets (£bn)                              | 187.1                        | 27.6                     | 186.0                       | 23.9                     | 31.5                       | 122.9                    | 44.5   | 623.5                           |
| Net loans to customers - amortised cost (£bn)    | 164.5                        | 18.7                     | 112.0                       | 16.0                     | 12.7                       | 11.4                     | 17.0   | 352.3                           |
| Loan impairment rate <sup>(2)</sup>              | 79bps                        | 248bps                   | 311bps                      | 70bps                    | 72bps                      | nm                       | nm   | 159bps                          |
| Impairment provisions (£bn)                      | (1.9)                        | (0.9)                    | (3.0)                       | (0.1)                    | -                          | (0.2)                    | -  | (6.1)                           |
| Impairment provisions - Stage 3 (£bn)            | (0.9)                        | (0.6)                    | (1.2)                       | -                        | -                          | (0.1)                    | -  | (2.8)                           |
| Customer deposits (£bn)                          | 161.0                        | 20.0                     | 159.6                       | 29.8                     | 29.5                       | 5.5                      | 2.9  | 408.3                           |
| Risk-weighted assets (RWAs) (£bn)                | 36.7                         | 12.8                     | 78.3                        | 10.4                     | 6.8                        | 35.1                     | 1.4  | 181.5                           |
| RWA equivalent (RWAe) (£bn)                      | 36.7                         | 12.8                     | 78.4                        | 10.4                     | 6.9                        | 37.2                     | 1.5  | 183.9                           |
| Employee numbers (FTEs - thousands)              | 17.5                         | 2.8                      | 10.2                        | 2.0                      | 1.8                        | 5.0                      | 23.4   | 62.7                            |
| Average interest earning assets (£bn)            | 178.6                        | 25.7                     | 156.5                       | 23.0                     | 31.2                       | 38.0                     | nm   | 477.9                           |
| Net interest margin                              | 2.23%                        | 1.52%                    | 1.76%                       | 2.20%                    | 1.30%                      | (0.18%)                  | nm   | 1.62%                           |
| Third party customer asset rate <sup>(3)</sup>   | 2.96%                        | 2.27%                    | 2.86%                       | 2.65%                    | 2.65%                      | nm                       | nm   | nm                              |
| Third party customer funding rate <sup>(3)</sup> | (0.28%)                      | (0.12%)                  | (0.37%)                     | (0.25%)                  | (0.06%)                    | nm                       | nm   | nm                              |

For the notes to this table, refer to page 18.

## Segment performance

Half year ended 30 June 2019

|  | UK Personal<br>Banking<br>£m | Ulster<br>Bank Rol<br>£m | Commercial<br>Banking<br>£m | Private<br>Banking<br>£m | RBS<br>International<br>£m | NatWest<br>Markets<br>£m | Central<br>items &<br>other <sup>(1)</sup><br>£m | Total<br>NatWest<br>Group<br>£m |
|--|------------------------------|--------------------------|-----------------------------|--------------------------|----------------------------|--------------------------|--|---------------------------------|
| <b>Income statement</b>                              |                              |                          |                             |                          |                            |                          |  |                                 |
| Net interest income                                  | 2,084                        | 200                      | 1,424                       | 261                      | 242                        | (122)                    | (85)   | 4,004                           |
| Other non-interest income                            | 363                          | 82                       | 741                         | 123                      | 68                         | 667                      | 80   | 2,124                           |
| Own credit adjustments                               | -                            | 1                        | -                           | -                        | -                          | (47)                     | -  | (46)                            |
| Strategic disposals                                  | -                            | -                        | -                           | -                        | -                          | 444                      | 591  | 1,035                           |
| <b>Total income</b>                                  | <b>2,447</b>                 | <b>283</b>               | <b>2,165</b>                | <b>384</b>               | <b>310</b>                 | <b>942</b>               | <b>586</b>                                       | <b>7,117</b>                    |
| Direct expenses - staff costs                        | (300)                        | (104)                    | (356)                       | (82)                     | (59)                       | (349)                    | (591)  | (1,841)                         |
| - other costs  | (136)                        | (48)                     | (155)                       | (35)                     | (23)                       | (86)                     | (1,087)  | (1,570)                         |
| Indirect expenses                                    | (716)                        | (90)                     | (587)                       | (96)                     | (27)                       | (165)                    | 1,681  | -                               |
| Strategic costs - direct                             | 4                            | (9)                      | (32)                        | -                        | (5)                        | (49)                     | (538)  | (629)                           |
| - indirect   | (75)                         | (10)                     | (86)                        | (17)                     | (5)                        | (30)                     | 223  | -                               |
| Litigation and conduct costs                         | (6)                          | (20)                     | (46)                        | (2)                      | -                          | 1                        | 13   | (60)                            |
| <b>Operating expenses</b>                            | <b>(1,229)</b>               | <b>(281)</b>             | <b>(1,262)</b>              | <b>(232)</b>             | <b>(119)</b>               | <b>(678)</b>             | <b>(299)</b>                                     | <b>(4,100)</b>                  |
| Operating profit before impairment (losses)/releases | 1,218                        | 2                        | 903                         | 152                      | 191                        | 264                      | 287  | 3,017                           |
| Impairment (losses)/releases                         | (181)                        | 21                       | (202)                       | 3                        | 3                          | 36                       | (3)  | (323)                           |
| <b>Operating profit</b>                              | <b>1,037</b>                 | <b>23</b>                | <b>701</b>                  | <b>155</b>               | <b>194</b>                 | <b>300</b>               | <b>284</b>                                       | <b>2,694</b>                    |
| <b>Additional information</b>                        |                              |                          |                             |                          |                            |                          |  |                                 |
| Return on equity <sup>(2)</sup>                      | 25.6%                        | 2.1%                     | 8.8%                        | 16.6%                    | 29.7%                      | 1.0%                     | nm   | 12.1%                           |
| Cost:income ratio <sup>(2)</sup>                     | 50.2%                        | 99.3%                    | 56.9%                       | 60.4%                    | 38.4%                      | 72.0%                    | nm   | 57.2%                           |
| Total assets (£bn)                                   | 173.9                        | 26.4                     | 165.6                       | 21.9                     | 30.4                       | 278.9                    | 32.8   | 729.9                           |
| Funded assets (£bn)                                  | 173.9                        | 26.4                     | 165.6                       | 21.9                     | 30.4                       | 133.4                    | 32.7   | 584.3                           |
| Net loans to customers - amortised cost (£bn)        | 151.9                        | 19.0                     | 101.4                       | 14.7                     | 13.6                       | 9.3                      | 0.7  | 310.6                           |
| Loan impairment rate <sup>(2)</sup>                  | 24bps                        | (21)bps                  | 39bps                       | (4)bps                   | (4)bps                     | nm                       | nm   | 21bps                           |
| Impairment provisions (£bn)                          | (1.3)                        | (0.9)                    | (1.3)                       | -                        | -                          | (0.2)                    | -  | (3.7)                           |
| Impairment provisions - Stage 3 (£bn)                | (0.8)                        | (0.8)                    | (1.0)                       | -                        | -                          | (0.2)                    | -  | (2.8)                           |
| Customer deposits (£bn)                              | 147.5                        | 19.0                     | 133.4                       | 28.0                     | 28.1                       | 2.8                      | 2.8  | 361.6                           |
| Risk-weighted assets (RWAs) (£bn)                    | 37.0                         | 14.2                     | 77.8                        | 9.7                      | 6.9                        | 41.4                     | 1.5  | 188.5                           |
| RWA equivalent (RWAe) (£bn)                          | 38.1                         | 14.5                     | 79.3                        | 9.7                      | 7.0                        | 46.1                     | 1.8  | 196.5                           |
| Employee numbers (FTEs - thousands)                  | 19.3                         | 3.1                      | 10.4                        | 1.9                      | 1.8                        | 5.0                      | 25.1   | 66.6                            |
| Average interest earning assets (£bn)                | 163.8                        | 24.7                     | 145.3                       | 21.2                     | 28.8                       | 33.3                     | nm   | 440.3                           |
| Net interest margin                                  | 2.57%                        | 1.63%                    | 1.98%                       | 2.48%                    | 1.69%                      | (0.73%)                  | nm   | 1.83%                           |
| Third party customer asset rate <sup>(3)</sup>       | 3.28%                        | 2.30%                    | 3.20%                       | 2.95%                    | 1.75%                      | nm                       | nm   | nm                              |
| Third party customer funding rate <sup>(3)</sup>     | (0.37%)                      | (0.17%)                  | (0.43%)                     | (0.44%)                  | (0.14%)                    | nm                       | nm   | nm                              |

For the notes to this table, refer to page 18.

## Segment performance

Quarter ended 30 June 2020

|  | UK Personal<br>Banking<br>£m | Ulster<br>Bank Rol<br>£m | Commercial<br>Banking<br>£m | Private<br>Banking<br>£m | RBS<br>International<br>£m | NatWest<br>Markets<br>£m | Central<br>items &<br>other <sup>(1)</sup><br>£m | Total<br>NatWest<br>Group<br>£m |
|--|------------------------------|--------------------------|-----------------------------|--------------------------|----------------------------|--------------------------|--|---------------------------------|
| <b>Income statement</b>                          |                              |                          |                             |                          |                            |                          |  |                                 |
| Net interest income                              | 975                          | 97                       | 696                         | 124                      | 90                         | 6                        | (78)   | 1,910                           |
| Other non-interest income                        | 60                           | 23                       | 299                         | 67                       | 25                         | 369                      | 25   | 868                             |
| Own credit adjustments                           | -                            | -                        | -                           | -                        | -                          | (102)                    | -  | (102)                           |
| Total income                                     | 1,035                        | 120                      | 995                         | 191                      | 115                        | 273                      | (53)   | 2,676                           |
| Direct expenses - staff costs                    | (139)                        | (52)                     | (176)                       | (46)                     | (33)                       | (159)                    | (272)  | (877)                           |
| - other costs                                    | (45)                         | (18)                     | (71)                        | (23)                     | (13)                       | (37)                     | (577)  | (784)                           |
| Indirect expenses                                | (393)                        | (46)                     | (324)                       | (54)                     | (15)                       | (75)                     | 907  | -                               |
| Strategic costs - direct                         | (1)                          | (3)                      | -                           | -                        | (2)                        | (86)                     | (241)  | (333)                           |
| - indirect                                       | (69)                         | (4)                      | (34)                        | (5)                      | (2)                        | (8)                      | 122  | -                               |
| Litigation and conduct costs                     | 101                          | 1                        | (6)                         | (1)                      | -                          | -                        | (10)   | 85                              |
| Operating expenses                               | (546)                        | (122)                    | (611)                       | (129)                    | (65)                       | (365)                    | (71)   | (1,909)                         |
| Operating profit/(loss) before impairment losses | 489                          | (2)                      | 384                         | 62                       | 50                         | (92)                     | (124)  | 767                             |
| Impairment losses                                | (360)                        | (216)                    | (1,355)                     | (27)                     | (31)                       | (45)                     | (22)   | (2,056)                         |
| Operating profit/(loss)                          | 129                          | (218)                    | (971)                       | 35                       | 19                         | (137)                    | (146)  | (1,289)                         |
| <b>Additional information</b>                    |                              |                          |                             |                          |                            |                          |  |                                 |
| Return on equity <sup>(2)</sup>                  | 5.7%                         | (44.5%)                  | (32.5%)                     | 6.6%                     | 4.3%                       | (7.1%)                   | nm   | (12.4%)                         |
| Cost:income ratio <sup>(2)</sup>                 | 52.8%                        | 101.7%                   | 59.9%                       | 67.5%                    | 56.5%                      | 133.7%                   | nm   | 70.9%                           |
| Total assets (£bn)                               | 187.1                        | 27.6                     | 186.0                       | 23.9                     | 31.5                       | 303.8                    | 47.0   | 806.9                           |
| Funded assets (£bn)                              | 187.1                        | 27.6                     | 186.0                       | 23.9                     | 31.5                       | 122.9                    | 44.5   | 623.5                           |
| Net loans to customers - amortised cost (£bn)    | 164.5                        | 18.7                     | 112.0                       | 16.0                     | 12.7                       | 11.4                     | 17.0   | 352.3                           |
| Loan impairment rate <sup>(2)</sup>              | 87bps                        | 441bps                   | 472bps                      | 67bps                    | 97bps                      | nm                       | nm   | 229bps                          |
| Impairment provisions (£bn)                      | (1.9)                        | (0.9)                    | (3.0)                       | (0.1)                    | -                          | (0.2)                    | -  | (6.1)                           |
| Impairment provisions - Stage 3 (£bn)            | (0.9)                        | (0.6)                    | (1.2)                       | -                        | -                          | (0.1)                    | -  | (2.8)                           |
| Customer deposits (£bn)                          | 161.0                        | 20.0                     | 159.6                       | 29.8                     | 29.5                       | 5.5                      | 2.9  | 408.3                           |
| Risk-weighted assets (RWAs) (£bn)                | 36.7                         | 12.8                     | 78.3                        | 10.4                     | 6.8                        | 35.1                     | 1.4  | 181.5                           |
| RWA equivalent (RWAe) (£bn)                      | 36.7                         | 12.8                     | 78.4                        | 10.4                     | 6.9                        | 37.2                     | 1.5  | 183.9                           |
| Employee numbers (FTEs - thousands)              | 17.5                         | 2.8                      | 10.2                        | 2.0                      | 1.8                        | 5.0                      | 23.4   | 62.7                            |
| Average interest earning assets (£bn)            | 179.8                        | 26.4                     | 164.6                       | 23.3                     | 31.5                       | 39.9                     | nm   | 497.4                           |
| Net interest margin                              | 2.18%                        | 1.48%                    | 1.70%                       | 2.14%                    | 1.15%                      | 0.06%                    | nm   | 1.54%                           |
| Third party customer asset rate <sup>(3)</sup>   | 2.86%                        | 2.27%                    | 2.70%                       | 2.52%                    | 2.58%                      | nm                       | nm   | nm                              |
| Third party customer funding rate <sup>(3)</sup> | (0.20%)                      | (0.12%)                  | (0.33%)                     | (0.13%)                  | (0.01%)                    | nm                       | nm   | nm                              |

For the notes to this table, refer to page 18.

## Segment performance

Quarter ended 31 March 2020

|   | UK Personal<br>Banking<br>£m | Ulster<br>Bank Rol<br>£m | Commercial<br>Banking<br>£m | Private<br>Banking<br>£m | RBS<br>International<br>£m | NatWest<br>Markets<br>£m | Central<br>items &<br>other <sup>(1)</sup><br>£m | Total<br>NatWest<br>Group<br>£m |
|---|------------------------------|--------------------------|-----------------------------|--------------------------|----------------------------|--------------------------|--|---------------------------------|
| <b>Income statement</b>                                     |                              |                          |                             |                          |                            |                          |  |                                 |
| Net interest income   | 1,007                        | 97                       | 674                         | 127                      | 111                        | (40)                     | (34)   | 1,942                           |
| Other non-interest income                                   | 143                          | 32                       | 334                         | 74                       | 33                         | 428                      | 21   | 1,065                           |
| Own credit adjustments                                      | -                            | -                        | -                           | -                        | -                          | 155                      | -  | 155                             |
| <b>Total income</b>   | <b>1,150</b>                 | <b>129</b>               | <b>1,008</b>                | <b>201</b>               | <b>144</b>                 | <b>543</b>               | <b>(13)</b>                                      | <b>3,162</b>                    |
| Direct expenses - staff costs                               | (141)                        | (48)                     | (184)                       | (47)                     | (32)                       | (167)                    | (300)  | (919)                           |
| - other costs   | (59)                         | (24)                     | (78)                        | (24)                     | (14)                       | (57)                     | (539)  | (795)                           |
| Indirect expenses   | (392)                        | (46)                     | (306)                       | (47)                     | (14)                       | (74)                     | 879  | -                               |
| Strategic costs - direct                                    | -                            | (1)                      | (5)                         | -                        | (1)                        | (34)                     | (90)   | (131)                           |
| - indirect  | (34)                         | (4)                      | (36)                        | (5)                      | (3)                        | (8)                      | 90   | -                               |
| Litigation and conduct costs                                | 97                           | -                        | (1)                         | -                        | 3                          | (2)                      | (93)   | 4                               |
| <b>Operating expenses</b>                                   | <b>(529)</b>                 | <b>(123)</b>             | <b>(610)</b>                | <b>(123)</b>             | <b>(61)</b>                | <b>(342)</b>             | <b>(53)</b>                                      | <b>(1,841)</b>                  |
| Operating profit/(loss) before impairment (losses)/releases | 621                          | 6                        | 398                         | 78                       | 83                         | 201                      | (66)   | 1,321                           |
| Impairment (losses)/releases                                | (297)                        | (27)                     | (435)                       | (29)                     | (15)                       | 5                        | (4)  | (802)                           |
| <b>Operating profit/(loss)</b>                              | <b>324</b>                   | <b>(21)</b>              | <b>(37)</b>                 | <b>49</b>                | <b>68</b>                  | <b>206</b>               | <b>(70)</b>                                      | <b>519</b>                      |
| <b>Additional information</b>                               |                              |                          |                             |                          |                            |                          |  |                                 |
| Return on equity <sup>(2)</sup>                             | 15.5%                        | (4.2%)                   | (2.5%)                      | 9.8%                     | 19.4%                      | 8.7%                     | nm   | 3.6%                            |
| Cost:income ratio <sup>(2)</sup>                            | 46.0%                        | 95.3%                    | 59.1%                       | 61.2%                    | 42.4%                      | 63.0%                    | nm   | 57.7%                           |
| Total assets (£bn)  | 186.3                        | 26.3                     | 178.3                       | 23.4                     | 33.2                       | 335.7                    | 34.4   | 817.6                           |
| Funded assets (£bn)   | 186.3                        | 26.3                     | 178.3                       | 23.4                     | 33.2                       | 129.6                    | 31.8   | 608.9                           |
| Net loans to customers - amortised cost (£bn)               | 163.7                        | 18.7                     | 109.2                       | 15.8                     | 13.6                       | 12.2                     | 18.1   | 351.3                           |
| Loan impairment rate <sup>(2)</sup>                         | 72bps                        | 56bps                    | 157bps                      | 73bps                    | 44bps                      | nm                       | nm   | 90bps                           |
| Impairment provisions (£bn)                                 | (1.6)                        | (0.7)                    | (1.7)                       | (0.1)                    | -                          | (0.1)                    | -  | (4.2)                           |
| Impairment provisions - Stage 3 (£bn)                       | (0.9)                        | (0.6)                    | (1.0)                       | -                        | -                          | (0.1)                    | -  | (2.6)                           |
| Customer deposits (£bn)                                     | 152.8                        | 19.3                     | 143.9                       | 29.0                     | 32.3                       | 5.7                      | 1.8  | 384.8                           |
| Risk-weighted assets (RWAs) (£bn)                           | 38.2                         | 12.7                     | 76.9                        | 10.3                     | 6.8                        | 38.9                     | 1.4  | 185.2                           |
| RWA equivalent (RWAE) (£bn)                                 | 38.2                         | 12.7                     | 77.0                        | 10.3                     | 7.1                        | 42.2                     | 1.7  | 189.2                           |
| Employee numbers (FTEs - thousands)                         | 17.8                         | 2.9                      | 10.0                        | 2.0                      | 1.8                        | 5.1                      | 23.6   | 63.2                            |
| Average interest earning assets (£bn)                       | 177.4                        | 24.9                     | 148.4                       | 22.7                     | 30.9                       | 36.1                     | nm   | 458.5                           |
| Net interest margin   | 2.28%                        | 1.56%                    | 1.83%                       | 2.25%                    | 1.45%                      | (0.45%)                  | nm   | 1.70%                           |
| Third party customer asset rate <sup>(3)</sup>              | 3.06%                        | 2.28%                    | 3.03%                       | 2.77%                    | 2.79%                      | nm                       | nm   | nm                              |
| Third party customer funding rate <sup>(3)</sup>            | (0.37%)                      | (0.13%)                  | (0.42%)                     | (0.38%)                  | (0.11%)                    | nm                       | nm   | nm                              |

For the notes to this table, refer to page 18.

## Segment performance

Quarter ended 30 June 2019

|   | UK Personal<br>Banking<br>£m | Ulster<br>Bank Rol<br>£m | Commercial<br>Banking<br>£m | Private<br>Banking<br>£m | RBS<br>International<br>£m | NatWest<br>Markets<br>£m | Central<br>items &<br>other (1)<br>£m | Total<br>NatWest<br>Group<br>£m |
|---|------------------------------|--------------------------|-----------------------------|--------------------------|----------------------------|--------------------------|---------------------------------------|---------------------------------|
| <b>Income statement</b>                                     |                              |                          |                             |                          |                            |                          |                                       |                                 |
| Net interest income   | 1,032                        | 102                      | 716                         | 129                      | 125                        | (91)                     | (42)                                  | 1,971                           |
| Other non-interest income                                   | 170                          | 35                       | 367                         | 62                       | 34                         | 338                      | 71                                    | 1,077                           |
| Own credit adjustments                                      | -                            | 1                        | -                           | -                        | -                          | (5)                      | 1                                     | (3)                             |
| Strategic disposals   | -                            | -                        | -                           | -                        | -                          | 444                      | 591                                   | 1,035                           |
| <b>Total income</b>   | <b>1,202</b>                 | <b>138</b>               | <b>1,083</b>                | <b>191</b>               | <b>159</b>                 | <b>686</b>               | <b>621</b>                            | <b>4,080</b>                    |
| Direct expenses - staff costs                               | (148)                        | (53)                     | (175)                       | (41)                     | (31)                       | (176)                    | (281)                                 | (905)                           |
| - other costs   | (77)                         | (22)                     | (80)                        | (17)                     | (10)                       | (38)                     | (524)                                 | (768)                           |
| Indirect expenses   | (317)                        | (42)                     | (269)                       | (45)                     | (13)                       | (76)                     | 762                                   | -                               |
| Strategic costs - direct                                    | 4                            | (4)                      | (12)                        | -                        | (3)                        | (31)                     | (388)                                 | (434)                           |
| - indirect  | (49)                         | (5)                      | (50)                        | (10)                     | (3)                        | (17)                     | 134                                   | -                               |
| Litigation and conduct costs                                | (7)                          | (19)                     | (36)                        | (2)                      | -                          | (6)                      | 15                                    | (55)                            |
| <b>Operating expenses</b>                                   | <b>(594)</b>                 | <b>(145)</b>             | <b>(622)</b>                | <b>(115)</b>             | <b>(60)</b>                | <b>(344)</b>             | <b>(282)</b>                          | <b>(2,162)</b>                  |
| Operating profit/(loss) before impairment (losses)/releases | 608                          | (7)                      | 461                         | 76                       | 99                         | 342                      | 339                                   | 1,918                           |
| Impairment (losses)/releases                                | (69)                         | 10                       | (197)                       | (1)                      | 2                          | 20                       | (2)                                   | (237)                           |
| <b>Operating profit</b>                                     | <b>539</b>                   | <b>3</b>                 | <b>264</b>                  | <b>75</b>                | <b>101</b>                 | <b>362</b>               | <b>337</b>                            | <b>1681</b>                     |
| <b>Additional information</b>                               |                              |                          |                             |                          |                            |                          |                                       |                                 |
| Return on equity (2)  | 26.5%                        | 0.6%                     | 6.2%                        | 15.9%                    | 30.8%                      | 4.4%                     | nm                                    | 15.8%                           |
| Cost:income ratio (2)                                       | 49.4%                        | 105.1%                   | 56.1%                       | 60.2%                    | 37.7%                      | 50.1%                    | nm                                    | 52.6%                           |
| Total assets (£bn)  | 173.9                        | 26.4                     | 165.6                       | 21.9                     | 30.4                       | 278.9                    | 32.8                                  | 729.9                           |
| Funded assets (£bn)   | 173.9                        | 26.4                     | 165.6                       | 21.9                     | 30.4                       | 133.4                    | 32.7                                  | 584.3                           |
| Net loans to customers - amortised cost (£bn)               | 151.9                        | 19.0                     | 101.4                       | 14.7                     | 13.6                       | 9.3                      | 0.7                                   | 310.6                           |
| Loan impairment rate (2)                                    | 18bps                        | (20)bps                  | 77bps                       | 3bps                     | (6)bps                     | nm                       | nm                                    | 30bps                           |
| Impairment provisions (£bn)                                 | (1.3)                        | (0.9)                    | (1.3)                       | -                        | -                          | (0.2)                    | -                                     | (3.7)                           |
| Impairment provisions - Stage 3 (£bn)                       | (0.8)                        | (0.8)                    | (1.0)                       | -                        | -                          | (0.2)                    | -                                     | (2.8)                           |
| Customer deposits (£bn)                                     | 147.5                        | 19.0                     | 133.4                       | 28.0                     | 28.1                       | 2.8                      | 2.8                                   | 361.6                           |
| Risk-weighted assets (RWAs) (£bn)                           | 37.0                         | 14.2                     | 77.8                        | 9.7                      | 6.9                        | 41.4                     | 1.5                                   | 188.5                           |
| RWA equivalent (RWAe) (£bn)                                 | 38.1                         | 14.5                     | 79.3                        | 9.7                      | 7.0                        | 46.1                     | 1.8                                   | 196.5                           |
| Employee numbers (FTEs - thousands)                         | 19.3                         | 3.1                      | 10.4                        | 1.9                      | 1.8                        | 5.0                      | 25.1                                  | 66.6                            |
| Average interest earning assets (£bn)                       | 164.8                        | 25.3                     | 146.1                       | 21.2                     | 29.8                       | 34.4                     | nm                                    | 444.8                           |
| Net interest margin   | 2.51%                        | 1.62%                    | 1.97%                       | 2.44%                    | 1.68%                      | (1.05%)                  | nm                                    | 1.78%                           |
| Third party customer asset rate (3)                         | 3.25%                        | 2.29%                    | 3.18%                       | 2.89%                    | 1.79%                      | nm                       | nm                                    | nm                              |
| Third party customer funding rate (3)                       | (0.38%)                      | (0.15%)                  | (0.42%)                     | (0.45%)                  | (0.13%)                    | nm                       | nm                                    | nm                              |

### Notes:

(1) Central items & other includes unallocated transactions, including volatile items under IFRS, items related to the Alawwal bank merger (2019 only) and RMBS related items.

(2) Refer to the Appendix for details of basis of preparation and reconciliation of non-IFRS performance measures where relevant.

(3) Ulster Bank Ireland DAC (UBI DAC) and RBS International manage their funding and liquidity requirements locally. Their liquidity asset portfolios and non-customer related funding sources are included within their net interest margin, but excluded from their third party asset and liability rates.

## Capital and risk management

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Certain disclosures in this section are within the scope of EY's review report and are marked accordingly by a bracket in the right hand margin.

### Capital, liquidity and funding risk

#### Introduction

The economic impact of the Covid-19 pandemic was significant. While liquidity, capital and funding were closely monitored throughout, NatWest Group benefited from its strong positions – particularly in relation to CET1 – going into the crisis. Prudent risk management continues to be important as the full economic effects of the global pandemic unfold.

#### Key developments

- The CET1 ratio increased by 100 basis points to 17.2% primarily due to the release of £1.3 billion following the cancellation of the proposed 2019 dividend payments and associated pension contribution in Q1 2020, as announced by the Board in response to Covid-19. The attributable loss in the period was £705 million however the IFRS 9 transitional arrangements on expected credit losses provided relief of £1,578 million.
- RWAs increased by £2.3 billion in H1 2020. Credit Risk RWAs increased by £4.7 billion largely due to increased utilisation of existing facilities, new lending under the Government lending initiatives and revision of risk parameters in Commercial Banking. There were offsetting credit risk reductions in UK Personal Banking and NatWest Markets segments. Market Risk RWAs decreased by £1.5 billion, primarily reflecting movements in risks-not-in-VaR (RNIV) and Incremental Risk Charge (IRC) as well as a reduction in non-modelled market risk during the period.
- The CRR leverage ratio remained as 5.1% due to an increase in Tier 1 capital being offset by increases in balance sheet exposures.
- The total loss absorbing capital ratio of 36.8% is above the Bank of England (BOE) requirement of 21.9% at 1 January 2020, including CRDIV combined buffer requirements.
- In the first half of 2020, NatWest Group plc issued \$1.6 billion (£1.3 billion) new MREL eligible senior debt, \$1.5 billion (£1.2 billion) of AT1 and £1.0 billion Tier 2 securities. NatWest Group plc made a redemption announcement on \$2 billion (£1.3 billion) AT1 in June 2020 which have been excluded from capital and will be redeemed in August 2020. CET1 reduced by £345 million due to the FX impact on the redemption announcement. In subsidiaries, a £1.25 billion covered bond from National Westminster Bank Plc matured and NatWest Markets Plc issued two benchmark transactions, in the form of a €1.0 billion five - year fixed rate EMTN and a \$1.0 billion three - year fixed rate US Rule 144A programme issuance.
- NatWest Group participation in the BOE Term Funding Scheme (TFS) reduced by £5 billion and the Group drew down £5 billion under the BOE Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises (TFSME) during H1 2020.
- UBI DAC borrowed €3.1 billion from the European Central Bank (ECB) Targeted longer-term refinancing operation (TLTRO 3) and repaid €2.0 billion of TLTRO 2.
- H1 2020 published LCR ratio of 166% is 14% higher than FY 2019 driven by increased deposits in NatWest Holdings Limited and Treasury issuance including AT1, Tier 2 and MREL, partially offset by NatWest Holdings Limited lending growth driven by mortgages and government schemes lending.
- The net stable funding ratio was at 144% compared to 141% for FY 2019. The increase is mainly due to deposits growth.

## Capital and risk management

### Capital, liquidity and funding risk continued

In response to the Covid-19 pandemic, a number of relief measures to alleviate the financial stability impact have been announced and recommended by regulatory and supervisory bodies. One significant announcement was on 26 June when the European Parliament passed an amended regulation to the CRR in response to the Covid-19 pandemic (“the CRR Covid-19 amendment”); NatWest Group has applied a number of the CRR amendments for H1 2020 reporting. The impact on capital and leverage of the CRR amendment and other relief measures are set out below.

- **IFRS 9 Transition** – NatWest Group has elected to take advantage of the transitional regulatory capital rules in respect of expected credit losses following the adoption of IFRS 9; it had previously had a negligible impact up to Q4 2019. The CRR Covid-19 amendment now requires a full CET1 addback for the movement in stage 1 and stage 2 ECL from 1 January 2020 for the next two years. The IFRS 9 transitional arrangement impact on NatWest Group CET1 regulatory capital at 30 June 2020 is £1.6 billion.
- **UK Leverage exposure** – The Prudential Regulation Authority (PRA) announced the ability for firms to apply for a modification by consent to permit the netting of regular-way purchase and sales settlement balances. The PRA also offered a further modification that gave an exclusion from the UK Leverage Exposure for Bounce Back Loans (BBL) and other 100% guaranteed government Covid-19 lending schemes. The NatWest Group has received permission to apply these and it has reduced the UK leverage exposure by approximately £6.9 billion and £5.2 billion respectively.
- **CRR Leverage exposure** – The CRR Covid-19 amendment accelerated a change in CRR2 to allow the netting of regular-way purchase and sales settlement balances. The NatWest Group has applied this and it has reduced the CRR leverage exposure by approximately £6.9 billion.
- **Infrastructure and SME RWA supporting factors** – The CRR Covid-19 amendment allowed an acceleration of the planned changes to the SME supporting factor and the introduction of an Infrastructure supporting factor, with these now being applicable with immediate effect. NatWest Group intends to implement these beneficial changes which will reduce RWAs but has not yet concluded the required operational change project to implement.
- **Prudential Valuation Adjustment (PVA)** – The European Commission amended the prudent valuation Regulatory Technical Standard such that, due to the exceptional levels of market volatility, the aggregation factor was increased from 50% to 66% until 31 December 2020. This has reduced NatWest Group’s PVA deduction by approximately £100 million.
- **Market Risk Value-at-risk (VaR) model capital multiplier** – The PRA and De Nederlandsche Bank (DNB) have announced temporary approaches in relation to the exceptional levels of market volatility which has resulted in an increase in VaR model back testing exceptions in NatWest Markets Plc and NatWest Markets N.V.. Under the PRA temporary approach, capital multiplier increases due to new back testing exceptions which have resulted in an increase in capital requirements can be offset through a commensurate reduction in RNIV capital requirements. Under the DNB approach, back testing exceptions have been allowed to be excluded from the capital multiplier. The PRA approach resulted in approximately £2,300 million benefit and the DNB approach a benefit of approximately €100 million.
- **Capital buffers** – Many countries have recently announced reductions in their countercyclical capital buffer rates in response to Covid-19. Most notably for NatWest Group, the Financial Policy Committee reduced the UK rate from 1% to 0% effective from 11 March 2020. The CBI also announced a reduction of the Republic of Ireland rate from 1% to 0% effective from 1 April 2020.

## Capital and risk management

### Capital, liquidity and funding risk *continued*

#### Maximum Distributable Amount (MDA) and Minimum Capital Requirements

NatWest Group is subject to minimum capital requirements relative to RWAs. The table below summarises the minimum capital requirements (the sum of Pillar 1 and Pillar 2A), and the additional capital buffers which are held in excess of the regulatory minimum requirements and are usable in stress.

Where the CET 1 ratio falls below the sum of the minimum capital and the combined buffer requirement, there is a subsequent automatic restriction on the amount available to service discretionary payments, known as the MDA. Note that different capital requirements apply to individual legal entities or sub-groups and that the table shown does not reflect any incremental PRA buffer requirements, which are not disclosable.

The current capital position provides significant headroom above both our minimum requirements and our MDA threshold requirements.

| Type  | CET1         | Total Tier 1 | Total capital |
|---|--------------|--------------|---------------|
| Pillar 1 requirements                         | <b>4.5%</b>  | <b>6.0%</b>  | <b>8.0%</b>   |
| Pillar 2A requirements                        | <b>1.9%</b>  | <b>2.6%</b>  | <b>3.4%</b>   |
| Minimum Capital Requirements                  | <b>6.4%</b>  | <b>8.6%</b>  | <b>11.4%</b>  |
| Capital conservation buffer                   | <b>2.5%</b>  | <b>2.5%</b>  | <b>2.5%</b>   |
| Countercyclical capital buffer <sup>(1)</sup> | <b>0.0%</b>  | <b>0.0%</b>  | <b>0.0%</b>   |
| G-SIB buffer <sup>(2)</sup>                   | -            | -            | -             |
| MDA Threshold                                 | <b>8.9%</b>  | <b>na</b>    | <b>na</b>     |
| Subtotal <sup>(3)</sup>                       | <b>8.9%</b>  | <b>11.1%</b> | <b>13.9%</b>  |
| Capital ratios at 30 June 2020                | <b>17.2%</b> | <b>19.4%</b> | <b>22.5%</b>  |
| Headroom <sup>(4)</sup>                       | <b>8.3%</b>  | <b>8.3%</b>  | <b>8.6%</b>   |

#### Notes:

- (1) Many countries have recently announced reductions in their countercyclical capital buffer rates in response to Covid-19. Most notably for NatWest Group, the Financial Policy Committee reduced the UK rate from 1% to 0% effective from 11 March 2020. The CBI also announced a reduction of the Republic of Ireland rate from 1% to 0% effective from 1 April 2020.
- (2) In November 2018 the Financial Stability Board announced that NatWest Group is no longer a G-SIB. From 1 January 2020, NatWest Group was released from this global buffer requirement.
- (3) The prevailing combined buffer requirements for NatWest Group equate to the aggregate of the capital conservation buffer and countercyclical buffer. 8.9% CET1 represents the MDA threshold for NatWest Group.
- (4) The headroom does not reflect excess distributable capital and may vary over time.

**Capital and risk management**  
**Capital, liquidity and funding risk continued**  
**Capital and leverage ratios**

The table below sets out the key capital and leverage ratios.

|  | <b>CRR basis <sup>(1)</sup></b> |                    |
|--|---------------------------------|--------------------|
|  | <b>30 June</b>                  | <b>31 December</b> |
|  | <b>2020</b>                     | <b>2019</b>        |
| <b>Capital adequacy ratios</b>                     |                                 |                    |
| CET1 (%)   | 17.2                            | 16.2               |
| Tier 1 (%)   | 19.4                            | 18.5               |
| Total (%)  | 22.5                            | 21.2               |
| <b>Capital</b>                                     |                                 |                    |
|  | <b>£m</b>                       | <b>£m</b>          |
| Tangible equity                                    | 32,006                          | 32,371             |
| Expected loss less impairment provisions           | -                               | (167)              |
| Prudential valuation adjustment                    | (370)                           | (431)              |
| Deferred tax assets                                | (844)                           | (757)              |
| Own credit adjustments                             | (244)                           | (118)              |
| Pension fund assets                                | (588)                           | (474)              |
| Cash flow hedging reserve                          | (341)                           | (35)               |
| Foreseeable ordinary and special dividends         | -                               | (968)              |
| Foreseeable charges                                | -                               | (365)              |
| Adjustments under IFRS 9 transitional arrangements | 1,578                           | -                  |
| Other deductions                                   | -                               | (2)                |
| <b>Total deductions</b>                            | <b>(809)</b>                    | <b>(3,317)</b>     |
| CET1 capital                                       | 31,197                          | 29,054             |
| AT1 capital  | 3,990                           | 4,051              |
| Tier 1 capital                                     | 35,187                          | 33,105             |
| Tier 2 capital                                     | 5,596                           | 4,900              |
| <b>Total regulatory capital</b>                    | <b>40,783</b>                   | <b>38,005</b>      |
| <b>Risk-weighted assets</b>                        |                                 |                    |
| Credit risk  | 135,700                         | 131,000            |
| Counterparty credit risk                           | 12,400                          | 12,600             |
| Market risk  | 11,500                          | 13,000             |
| Operational risk                                   | 21,900                          | 22,600             |
| <b>Total RWAs</b>                                  | <b>181,500</b>                  | <b>179,200</b>     |
| <b>Leverage</b>                                    |                                 |                    |
| Cash and balances at central banks                 | 100,300                         | 77,900             |
| Trading assets                                     | 72,400                          | 76,700             |
| Derivatives  | 183,400                         | 150,000            |
| Financial assets                                   | 428,100                         | 399,100            |
| Other assets                                       | 22,700                          | 19,300             |
| <b>Total assets</b>                                | <b>806,900</b>                  | <b>723,000</b>     |
| Derivatives  |                                 |                    |
| - netting and variation margin                     | (194,400)                       | (157,800)          |
| - potential future exposures                       | 44,000                          | 43,000             |
| Securities financing transactions gross up         | 1,300                           | 2,200              |
| Other off balance sheet items                      | 43,500                          | 42,500             |
| Regulatory deductions and other adjustments        | (14,600)                        | (9,000)            |
| <b>CRR leverage exposure</b>                       | <b>686,700</b>                  | <b>643,900</b>     |
| <b>CRR leverage ratio % <sup>(2)</sup></b>         | <b>5.1</b>                      | <b>5.1</b>         |
| <b>UK leverage exposure</b>                        | <b>585,100</b>                  | <b>570,300</b>     |
| <b>UK leverage ratio % <sup>(3)</sup></b>          | <b>6.0</b>                      | <b>5.8</b>         |

Notes:

- (1) Based on CRR end point including the IFRS 9 transitional adjustment of £1.6 billion. Excluding this adjustment, the CET 1 ratio would be 16.3%.
- (2) Presented on CRR end point Tier 1 capital (including IFRS 9 transitional adjustment) and leverage exposure under the CRR Delegated Act. Excluding the IFRS 9 transitional adjustment, the leverage ratio would be 4.9%.
- (3) Presented on CRR end point Tier 1 capital (including IFRS 9 transitional adjustment). The UK leverage ratio excludes central bank claims from the leverage exposure where deposits held are denominated in the same currency and of contractual maturity that is equal or longer than that of the central bank claims. Excluding the IFRS 9 transitional adjustment, the UK leverage ratio would be 5.8%.

## Capital and risk management

### Capital, liquidity and funding risk continued

#### Capital flow statement

The table below analyses the movement in CET1, AT1 and Tier 2 capital for the half year ended 30 June 2020.

|  | CET1<br>£m    | AT1<br>£m    | Tier 2<br>£m | Total<br>£m   |
|--|---------------|--------------|--------------|---------------|
| <b>At 1 January 2020</b>   | <b>29,054</b> | <b>4,051</b> | <b>4,900</b> | <b>38,005</b> |
| Attributable loss for the period   | (705)         | -            | -            | (705)         |
| Own credit   | (126)         | -            | -            | (126)         |
| Share capital and reserve movements in respect of employee share schemes | (46)          | -            | -            | (46)          |
| Foreign exchange reserve   | 466           | -            | -            | 466           |
| FVOCI reserves   | (218)         | -            | -            | (218)         |
| Goodwill and intangibles deduction                                       | 20            | -            | -            | 20            |
| Deferred tax assets  | (87)          | -            | -            | (87)          |
| Prudential valuation adjustments   | 61            | -            | -            | 61            |
| Expected loss less impairment  | 167           | -            | -            | 167           |
| New issues of capital instruments  | -             | 1,216        | 1,000        | 2,216         |
| Redemption of capital instruments  | -             | (1,277)      | -            | (1,277)       |
| Net dated subordinated debt/grandfathered instruments                    | -             | -            | (756)        | (756)         |
| Foreign exchange movements   | (355)         | -            | 452          | 97            |
| Foreseeable ordinary and special dividends                               | 968           | -            | -            | 968           |
| Foreseeable charges  | 365           | -            | -            | 365           |
| Adjustment under IFRS 9 transitional arrangements                        | 1,578         | -            | -            | 1,578         |
| Other movements  | 55            | -            | -            | 55            |
| <b>At 30 June 2020</b>   | <b>31,197</b> | <b>3,990</b> | <b>5,596</b> | <b>40,783</b> |

#### Key points

- NatWest Group has elected to take advantage of the transitional regulatory capital rules in respect of expected credit losses following the adoption of IFRS 9, it had previously had a negligible impact up to Q4 2019. The CRR Covid-19 amendment now requires a full CET1 addback for the movement in stage 1 and stage 2 ECL from 1 January 2020 for the next two years. The IFRS9 transitional arrangement impact on NatWest Group CET1 regulatory capital at 30 June 2020 is £1.6 billion.
- Foreign exchange movements include a £345 million charge, in relation to a \$2 billion AT1 redemption announcement on 28 June 2020.

#### Risk-weighted assets

The table below analyses the movement in RWAs during the half year, by key drivers.

|                            | Credit risk<br>£bn | Counterparty<br>credit risk<br>£bn | Market risk<br>£bn | Operational<br>risk<br>£bn | Total<br>£bn |
|----------------------------|--------------------|------------------------------------|--------------------|----------------------------|--------------|
| <b>At 1 January 2020</b>   | <b>131.0</b>       | <b>12.6</b>                        | <b>13.0</b>        | <b>22.6</b>                | <b>179.2</b> |
| Foreign exchange movement  | 2.1                | 0.4                                | -                  | -                          | 2.5          |
| Business movement          | 2.8                | (0.6)                              | 1.0                | (0.7)                      | 2.5          |
| Risk parameter changes (1) | (0.6)              | -                                  | -                  | -                          | (0.6)        |
| Methodology changes (2)    | 0.3                | -                                  | (0.1)              | -                          | 0.2          |
| Model updates              | 0.1                | -                                  | -                  | -                          | 0.1          |
| Other movements (3)        | -                  | -                                  | (2.4)              | -                          | (2.4)        |
| <b>At 30 June 2020</b>     | <b>135.7</b>       | <b>12.4</b>                        | <b>11.5</b>        | <b>21.9</b>                | <b>181.5</b> |

The table below analyses segmental RWAs.

|                            | UK Personal<br>Banking<br>£bn | Ulster<br>Bank Rol<br>£bn | Commercial<br>Banking<br>£bn | Private<br>Banking<br>£bn | RBSI<br>£bn | NatWest<br>Markets<br>£bn | Central<br>items & other<br>£bn | Total<br>£bn |
|----------------------------|-------------------------------|---------------------------|------------------------------|---------------------------|-------------|---------------------------|---------------------------------|--------------|
| <b>Total RWAs</b>          |                               |                           |                              |                           |             |                           |                                 |              |
| <b>At 1 January 2020</b>   | <b>37.8</b>                   | <b>13.0</b>               | <b>72.5</b>                  | <b>10.1</b>               | <b>6.5</b>  | <b>37.9</b>               | <b>1.4</b>                      | <b>179.2</b> |
| Foreign exchange movement  | -                             | 0.7                       | 0.8                          | -                         | 0.1         | 0.9                       | -                               | 2.5          |
| Business movement          | (0.3)                         | (0.5)                     | 4.5                          | 0.3                       | 0.2         | (1.4)                     | (0.3)                           | 2.5          |
| Risk parameter changes (1) | (0.8)                         | (0.6)                     | 0.6                          | -                         | -           | 0.2                       | -                               | (0.6)        |
| Methodology changes (2)    | -                             | -                         | (0.3)                        | -                         | -           | 0.2                       | 0.3                             | 0.2          |
| Model updates              | -                             | 0.2                       | (0.1)                        | -                         | -           | -                         | -                               | 0.1          |
| Other movements (3)        | -                             | -                         | 0.3                          | -                         | -           | (2.7)                     | -                               | (2.4)        |
| <b>At 30 June 2020</b>     | <b>36.7</b>                   | <b>12.8</b>               | <b>78.3</b>                  | <b>10.4</b>               | <b>6.8</b>  | <b>35.1</b>               | <b>1.4</b>                      | <b>181.5</b> |
| Credit risk                | 29.1                          | 11.7                      | 69.5                         | 9.1                       | 5.8         | 9.1                       | 1.4                             | 135.7        |
| Counterparty credit risk   | 0.1                           | -                         | 0.2                          | 0.1                       | -           | 12.0                      | -                               | 12.4         |
| Market risk                | 0.1                           | 0.1                       | 0.1                          | -                         | -           | 11.2                      | -                               | 11.5         |
| Operational risk           | 7.4                           | 1.0                       | 8.5                          | 1.2                       | 1.0         | 2.8                       | -                               | 21.9         |
| <b>Total RWAs</b>          | <b>36.7</b>                   | <b>12.8</b>               | <b>78.3</b>                  | <b>10.4</b>               | <b>6.8</b>  | <b>35.1</b>               | <b>1.4</b>                      | <b>181.5</b> |

Notes:

- Risk parameter changes relate to changes in credit quality metrics of customers and counterparties (such as probability of default and loss given default) as well as internal ratings based model changes relating to counterparty credit risk in line with European Banking Authority Pillar 3 Guidelines.
- The new securitisation framework has been fully implemented from 1 January 2020 and all positions have moved to the new framework.
- The decrease in Other movements reflects the temporary reduction permitted by the PRA to offset the impact of multiplier increases (included in Business movement). The offset covers all metrics affected by the multiplier increase, including CVAs. Other movements also reflect transfers between segments, primarily reflecting a transfer of Insurance related assets from NatWest Markets to Commercial Banking.

## Capital and risk management

### Capital, liquidity and funding risk continued

#### Key point

- RWAs increased by £2.3 billion in H1 2020, mainly reflecting increases in credit risk of £4.7 billion. There were offsetting decreases in market risk by £1.5 billion, operational risk by £0.7 billion and counterparty credit risk by £0.2 billion. The increase in credit risk RWAs primarily reflected increases in Commercial Banking due to drawdowns on existing facilities, new lending under the Government lending initiatives and deterioration of risk parameters. There were offsetting credit risk reductions in Personal Banking mainly due to revision of risk parameters as well as in the NatWest Markets segment in line with business strategy. Market Risk RWAs decreased by £1.5 billion, primarily reflecting movements in RNIVs and IRC as well as a reduction in non-modelled market risk during the period.

#### Credit risk exposure at default (EAD) and risk-weighted assets (RWAs)

The table below analyses credit risk RWAs and EADs, by on and off balance sheet.

|                        | UK Personal<br>Banking<br>£bn | Ulster<br>Bank RoI<br>£bn | Commercial<br>Banking<br>£bn | Private<br>Banking<br>£bn | RBS<br>International<br>£bn | NatWest<br>Markets<br>£bn | Central items<br>& other<br>£bn | Total<br>£bn |
|------------------------|-------------------------------|---------------------------|------------------------------|---------------------------|-----------------------------|---------------------------|---------------------------------|--------------|
| <b>30 June 2020</b>    |                               |                           |                              |                           |                             |                           |                                 |              |
| EAD On balance sheet   | 235.6                         | 28.3                      | 152.6                        | 21.4                      | 31.1                        | 40.7                      | 0.7                             | 510.4        |
| EAD Off balance sheet  | 27.2                          | 2.2                       | 29.9                         | 0.3                       | 4.8                         | 6.2                       | 0.4                             | 71.0         |
| EAD Total              | 262.8                         | 30.5                      | 182.5                        | 21.7                      | 35.9                        | 46.9                      | 1.1                             | 581.4        |
| RWAs On balance sheet  | 26.4                          | 10.6                      | 56.3                         | 8.9                       | 4.5                         | 7.0                       | 1.3                             | 115.0        |
| RWAs Off balance sheet | 2.7                           | 1.1                       | 13.2                         | 0.2                       | 1.3                         | 2.1                       | 0.1                             | 20.7         |
| RWAs Total             | 29.1                          | 11.7                      | 69.5                         | 9.1                       | 5.8                         | 9.1                       | 1.4                             | 135.7        |

#### 31 December 2019

|                        |       |      |       |      |      |      |     |       |
|------------------------|-------|------|-------|------|------|------|-----|-------|
| EAD On balance sheet   | 221.8 | 26.0 | 131.4 | 20.3 | 31.7 | 35.4 | 0.7 | 467.3 |
| EAD Off balance sheet  | 30.2  | 2.2  | 27.2  | 0.3  | 3.3  | 7.5  | 0.4 | 71.1  |
| EAD Total              | 252.0 | 28.2 | 158.6 | 20.6 | 35.0 | 42.9 | 1.1 | 538.4 |
| RWAs On balance sheet  | 27.1  | 10.8 | 50.8  | 8.7  | 4.7  | 6.4  | 1.3 | 109.8 |
| RWAs Off balance sheet | 3.1   | 1.1  | 12.5  | 0.2  | 1.0  | 3.2  | 0.1 | 21.2  |
| RWAs Total             | 30.2  | 11.9 | 63.3  | 8.9  | 5.7  | 9.6  | 1.4 | 131.0 |

## Capital resources

|  | PRA transitional basis |                           |
|--|------------------------|---------------------------|
|  | 30 June<br>2020<br>£m  | 31 December<br>2019<br>£m |
| <b>Shareholders' equity (excluding non-controlling interests)</b>                            |                        |                           |
| Shareholders' equity   | 43,103                 | 43,547                    |
| Preference shares - equity   | (494)                  | (496)                     |
| Other equity instruments   | (4,001)                | (4,058)                   |
|  | <b>38,608</b>          | <b>38,993</b>             |
| <b>Regulatory adjustments and deductions</b>   |                        |                           |
| Own credit   | (244)                  | (118)                     |
| Defined benefit pension fund adjustment  | (588)                  | (474)                     |
| Cash flow hedging reserve  | (341)                  | (35)                      |
| Deferred tax assets  | (844)                  | (757)                     |
| Prudential valuation adjustments   | (370)                  | (431)                     |
| Goodwill and other intangible assets   | (6,602)                | (6,622)                   |
| Expected losses less impairments   | -                      | (167)                     |
| Foreseeable ordinary and special dividends   | -                      | (968)                     |
| Foreseeable charges  | -                      | (365)                     |
| Adjustment under IFRS9 transition arrangements   | 1,578                  | -                         |
| Other regulatory adjustments   | -                      | (2)                       |
|  | <b>(7,411)</b>         | <b>(9,939)</b>            |
| <b>CET1 capital</b>  | <b>31,197</b>          | <b>29,054</b>             |
| <b>Additional Tier (AT1) capital</b>   |                        |                           |
| Qualifying instruments and related share premium   | 3,990                  | 4,051                     |
| Qualifying instruments and related share premium to phase out                                | 1,424                  | 1,366                     |
| Qualifying instruments issued by subsidiaries and held by third parties subject to phase out | 140                    | 140                       |
| <b>AT1 capital</b>   | <b>5,554</b>           | <b>5,557</b>              |
| <b>Tier 1 capital</b>  | <b>36,751</b>          | <b>34,611</b>             |
| <b>Qualifying Tier 2 capital</b>   |                        |                           |
| Qualifying instruments and related share premium   | 5,588                  | 4,867                     |
| Qualifying instruments issued by subsidiaries and held by third parties                      | 1,348                  | 1,345                     |
| <b>Tier 2 capital</b>  | <b>6,936</b>           | <b>6,212</b>              |
| <b>Total regulatory capital</b>  | <b>43,687</b>          | <b>40,823</b>             |

## Capital and risk management

### Capital, liquidity and funding risk continued

#### Loss absorbing capital

The following table illustrates the components of estimated loss absorbing capital (LAC) in NatWest Group plc and operating subsidiaries and includes external issuances only. The table is prepared on a transitional basis, including the benefit of regulatory capital instruments issued from operating companies, to the extent they meet the current MREL criteria.

|  | 30 June 2020         |                            |                             |                      | 31 December 2019     |                            |                             |                      |
|--|----------------------|----------------------------|-----------------------------|----------------------|----------------------|----------------------------|-----------------------------|----------------------|
|  | Par value (1)<br>£bn | Balance sheet value<br>£bn | Regulatory value (2)<br>£bn | LAC value (3)<br>£bn | Par value (1)<br>£bn | Balance sheet value<br>£bn | Regulatory value (2)<br>£bn | LAC value (3)<br>£bn |
| CET1 capital (4)                                       | 31.2                 | 31.2                       | 31.2                        | 31.2                 | 29.1                 | 29.1                       | 29.1                        | 29.1                 |
| Tier 1 capital: end-point CRR compliant AT1            |                      |                            |                             |                      |                      |                            |                             |                      |
| of which: NatWest Group (holdco)                       | 4.0                  | 4.0                        | 4.0                         | 4.0                  | 4.0                  | 4.0                        | 4.0                         | 4.0                  |
| of which: NatWest Group operating subsidiaries (opcos) | -                    | -                          | -                           | -                    | -                    | -                          | -                           | -                    |
|  | 4.0                  | 4.0                        | 4.0                         | 4.0                  | 4.0                  | 4.0                        | 4.0                         | 4.0                  |
| Tier 1 capital: end-point CRR non compliant            |                      |                            |                             |                      |                      |                            |                             |                      |
| of which: holdco                                       | 1.5                  | 1.7                        | 1.5                         | 0.5                  | 1.4                  | 1.6                        | 1.4                         | 0.5                  |
| of which: opcos  | 0.1                  | 0.1                        | 0.1                         | 0.1                  | 0.1                  | 0.1                        | 0.1                         | 0.1                  |
|  | 1.6                  | 1.8                        | 1.6                         | 0.6                  | 1.5                  | 1.7                        | 1.5                         | 0.6                  |
| Tier 2 capital: end-point CRR compliant                |                      |                            |                             |                      |                      |                            |                             |                      |
| of which: holdco                                       | 9.3                  | 9.7                        | 5.5                         | 6.2                  | 6.2                  | 6.4                        | 4.8                         | 4.7                  |
| of which: opcos  | 0.5                  | 0.5                        | 0.1                         | 0.4                  | 0.5                  | 0.5                        | 0.1                         | 0.4                  |
|  | 9.8                  | 10.2                       | 5.6                         | 6.6                  | 6.7                  | 6.9                        | 4.9                         | 5.1                  |
| Tier 2 capital: end-point CRR non compliant            |                      |                            |                             |                      |                      |                            |                             |                      |
| of which: holdco                                       | 0.1                  | 0.1                        | 0.1                         | 0.1                  | 0.1                  | 0.1                        | 0.1                         | 0.1                  |
| of which: opcos  | 1.6                  | 1.9                        | 1.2                         | 1.7                  | 1.6                  | 1.8                        | 1.2                         | 1.6                  |
|  | 1.7                  | 2.0                        | 1.3                         | 1.8                  | 1.7                  | 1.9                        | 1.3                         | 1.7                  |
| Senior unsecured debt securities issued by:            |                      |                            |                             |                      |                      |                            |                             |                      |
| NatWest Group holdco                                   | 21.0                 | 22.5                       | -                           | 22.5                 | 18.6                 | 19.2                       | -                           | 19.2                 |
| NatWest Group opcos                                    | 22.5                 | 23.0                       | -                           | -                    | 21.1                 | 20.7                       | -                           | -                    |
|  | 43.5                 | 45.5                       | -                           | 22.5                 | 39.7                 | 39.9                       | -                           | 19.2                 |
| <b>Total</b>   | <b>91.8</b>          | <b>94.7</b>                | <b>43.7</b>                 | <b>66.7</b>          | <b>82.7</b>          | <b>83.5</b>                | <b>40.8</b>                 | <b>59.7</b>          |
| RWAs   |                      |                            |                             | 181.5                |                      |                            |                             | 179.2                |
| UK leverage exposure                                   |                      |                            |                             | 585.1                |                      |                            |                             | 570.3                |
| LAC as a ratio of RWAs                                 |                      |                            |                             | 36.8%                |                      |                            |                             | 33.3%                |
| LAC as a ratio of UK leverage exposure                 |                      |                            |                             | 11.4%                |                      |                            |                             | 10.5%                |

#### Notes:

- (1) Par value reflects the nominal value of securities issued.
- (2) Regulatory capital instruments issued from operating companies are included in the transitional LAC calculation, to the extent they meet the current MREL criteria.
- (3) LAC value reflects NatWest Group's interpretation of the Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL), published in June 2018. MREL policy and requirements remain subject to further potential development, as such NatWest Group estimated position remains subject to potential change. Liabilities excluded from LAC include instruments with less than one year remaining to maturity, structured debt, operating company senior debt, and other instruments that do not meet the MREL criteria. The LAC calculation includes eligible Tier 1 and Tier 2 securities before the application of any regulatory caps or adjustments.
- (4) Corresponding shareholders' equity was £43.1 billion (2019 - £43.5 billion).
- (5) Regulatory amounts reported for AT1, Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.
- (6) NatWest Group is no longer recognised as a G-SII from 1 January 2020 and is therefore not subject to the CRR MREL requirement as of this date which references CRR2 leverage exposure. To aid comparison the leverage exposure, and resulting ratio, is disclosed according to the BoE leverage framework for all time periods.

## Capital and risk management

### Capital, liquidity and funding risk continued

#### Loss absorbing capital

The following table illustrates the components of the stock of outstanding issuance in NatWest Group and its operating subsidiaries including external and Internal issuances.

|                                   |                   | NatWest           |                  |             |            |            | NatWest    |              | NWM             | RBSI       |
|-----------------------------------|-------------------|-------------------|------------------|-------------|------------|------------|------------|--------------|-----------------|------------|
|                                   |                   | NatWest Group plc | Holdings Limited | NWB Plc     | RBS plc    | UBI DAC    | NWM Plc    | Markets N.V. | Securities Inc. | Limited    |
|                                   |                   | £bn               | £bn              | £bn         | £bn        | £bn        | £bn        | £bn          | £bn             | £bn        |
| Tier 1 (Inclusive of AT1)         | Externally issued | 5.8               | -                | 0.1         | -          | -          | -          | -            | -               | -          |
| Tier 1 (Inclusive of AT1)         | Internally issued | -                 | 3.7              | 2.4         | 1.0        | -          | 1.1        | 0.2          | -               | 0.3        |
|                                   |                   | 5.8               | 3.7              | 2.5         | 1.0        | -          | 1.1        | 0.2          | -               | 0.3        |
| Tier 2                            | Externally issued | 9.8               | -                | 1.2         | -          | 0.1        | 0.6        | 0.6          | -               | -          |
| Tier 2                            | Internally issued | 0.0               | 5.4              | 3.5         | 1.6        | 0.5        | 2.0        | 0.1          | 0.3             | -          |
|                                   |                   | 9.8               | 5.4              | 4.7         | 1.6        | 0.6        | 2.6        | 0.7          | 0.3             | -          |
| Senior unsecured                  | Externally issued | 22.5              | -                | -           | -          | -          | -          | -            | -               | -          |
| Senior unsecured                  | Internally issued | -                 | 9.8              | 4.4         | 0.4        | 0.5        | 5.6        | -            | -               | -          |
|                                   |                   | 22.5              | 9.8              | 4.4         | 0.4        | 0.5        | 5.6        | -            | -               | -          |
| <b>Total outstanding issuance</b> |                   | <b>38.1</b>       | <b>18.9</b>      | <b>11.6</b> | <b>3.0</b> | <b>1.1</b> | <b>9.3</b> | <b>0.9</b>   | <b>0.3</b>      | <b>0.3</b> |

Notes:

- (1) The balances are the IFRS balance sheet carrying amounts, which may differ from the amount which the instrument contributes to regulatory capital. Regulatory balances exclude, for example, issuance costs and fair value movements, while dated capital is required to be amortised on a straight-line basis over the final five years of maturity.
- (2) Balance sheet amounts reported for AT1, Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.
- (3) Internal issuance for NWB Plc, RBS plc and UBI DAC represents AT1, Tier 2 or Senior unsecured issuance to NatWest Holdings Limited and for NWM N.V. and NWM SI to NWM Plc.
- (4) Senior unsecured debt category does not include CP, CD and short term/medium notes issued from NatWest Group operating subsidiaries.
- (5) Tier 1 (inclusive of AT1) category does not include CET 1 numbers.

#### Funding sources

The table below shows the carrying values of the principal funding sources based on contractual maturity. Balance sheet captions include balances held at all classifications under IFRS 9.

|   | 30 June 2020                   |                               |                | 31 December 2019               |                               |                |
|---|--------------------------------|-------------------------------|----------------|--------------------------------|-------------------------------|----------------|
|   | Short-term less than 1 year £m | Long-term more than 1 year £m | Total £m       | Short-term less than 1 year £m | Long-term more than 1 year £m | Total £m       |
| <b>Bank deposits</b>                          |                                |                               |                |                                |                               |                |
| Repos   | 627                            | -                             | 627            | 2,598                          | -                             | 2,598          |
| Other bank deposits (1)                       | 6,706                          | 13,786                        | 20,492         | 6,688                          | 11,207                        | 17,895         |
|   | 7,333                          | 13,786                        | 21,119         | 9,286                          | 11,207                        | 20,493         |
| <b>Customer deposits</b>                      |                                |                               |                |                                |                               |                |
| Repos   | 1,337                          | -                             | 1,337          | 1,765                          | -                             | 1,765          |
| Non-bank financial institutions               | 54,015                         | 146                           | 54,161         | 48,759                         | 352                           | 49,111         |
| Personal                                      | 196,312                        | 904                           | 197,216        | 183,124                        | 1,210                         | 184,334        |
| Corporate                                     | 155,460                        | 94                            | 155,554        | 133,450                        | 587                           | 134,037        |
|   | 407,124                        | 1,144                         | 408,268        | 367,098                        | 2,149                         | 369,247        |
| <b>Trading liabilities (2)</b>                |                                |                               |                |                                |                               |                |
| Repos (3)                                     | 23,767                         | -                             | 23,767         | 27,885                         | -                             | 27,885         |
| Derivative collateral                         | 27,139                         | -                             | 27,139         | 21,509                         | -                             | 21,509         |
| Other bank customer deposits                  | 1,111                          | 981                           | 2,092          | 710                            | 896                           | 1,606          |
| Debt securities in issue - Medium term notes  | 829                            | 1,255                         | 2,084          | 659                            | 1,103                         | 1,762          |
|   | 52,846                         | 2,236                         | 55,082         | 50,763                         | 1,999                         | 52,762         |
| <b>Other financial liabilities</b>            |                                |                               |                |                                |                               |                |
| Customer deposits                             | 168                            | 182                           | 350            | -                              | -                             | -              |
| Debt securities in issue:                     |                                |                               |                |                                |                               |                |
| Commercial papers and certificates of deposit | 6,656                          | 97                            | 6,753          | 4,272                          | 6                             | 4,278          |
| Medium term notes                             | 4,072                          | 32,585                        | 36,657         | 4,592                          | 29,262                        | 33,854         |
| Covered bonds                                 | 1,907                          | 2,991                         | 4,898          | 3,051                          | 2,897                         | 5,948          |
| Securitisation                                | -                              | 1,023                         | 1,023          | -                              | 1,140                         | 1,140          |
|   | 12,803                         | 36,878                        | 49,681         | 11,915                         | 33,305                        | 45,220         |
| <b>Subordinated liabilities</b>               | 1,798                          | 11,760                        | 13,558         | 160                            | 9,819                         | 9,979          |
| <b>Total funding</b>                          | <b>481,904</b>                 | <b>65,804</b>                 | <b>547,708</b> | <b>439,222</b>                 | <b>58,479</b>                 | <b>497,701</b> |
| <i>Of which: available in resolution (4)</i>  | -                              | 31,063                        | 31,063         | -                              | 26,168                        | 26,168         |

Notes:

- (1) Includes £5.0 billion (31 December 2019 - £10.0 billion) relating to Term Funding Scheme participation, £5.0 billion (31 December 2019 - nil) relating to Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises participation and £2.8 billion (31 December 2019 - £1.7 billion) relating to NatWest Group's participation in central bank financing operations under the European Central Bank's targeted Long-term financing operations.
- (2) Excludes short positions of £20.5 billion (31 December 2019 - £21.2 billion).
- (3) Comprises central & other bank repos of £2.1 billion (31 December 2019 - £6.6 billion), other financial institution repos of £19.4 billion (31 December 2019 - £19.0 billion) and other corporate repos of £2.3 billion (31 December 2019 - £2.3 billion).
- (4) Eligible liabilities (as defined in the Banking Act 2009 as amended from time to time) that meet the eligibility criteria set out in the regulations, rules, policies, guidelines, or statements of the Bank of England including the Statement of Policy published by the Bank of England in June 2018. The balance consists of £22.6 billion (31 December 2019 - £19.2 billion) under debt securities in issue (senior MREL) and £8.5 billion (31 December 2019 - £6.9 billion) under subordinated liabilities.

## Capital and risk management

### Capital, liquidity and funding risk *continued*

#### Liquidity portfolio

The table below shows the liquidity portfolio by product, with primary liquidity aligned to internal stressed outflow coverage and regulatory LCR categorisation. Secondary liquidity comprises assets eligible for discount at central banks, which do not form part of the liquid asset portfolio for LCR or internal stressed outflow purposes.

|   | Liquidity value         |                     |                      |                         |                     |                      |
|---|-------------------------|---------------------|----------------------|-------------------------|---------------------|----------------------|
|   | 30 June 2020            |                     |                      | 31 December 2019        |                     |                      |
|   | NatWest Group (1)<br>£m | NWH Group (2)<br>£m | UK DoL Sub (3)<br>£m | NatWest Group (1)<br>£m | NWH Group (2)<br>£m | UK DoL Sub (3)<br>£m |
| Cash and balances at central banks  | 97,201                  | 67,783              | 67,783               | 74,289                  | 51,080              | 51,080               |
| AAA to AA- rated governments  | 56,234                  | 44,738              | 43,334               | 46,622                  | 35,960              | 34,585               |
| A+ and lower rated governments  | 1,040                   | -                   | -                    | 1,277                   | -                   | -                    |
| Government guaranteed issuers, Public sector entities and Government sponsored entities | 261                     | 261                 | 96                   | 251                     | 251                 | 90                   |
| International Organisations and Multilateral development banks                          | 2,799                   | 2,458               | 1,994                | 2,393                   | 2,149               | 1,717                |
| LCR level 1 bonds   | 60,334                  | 47,457              | 45,424               | 50,543                  | 38,360              | 36,392               |
| LCR level 1 Assets  | 157,535                 | 115,240             | 113,207              | 124,832                 | 89,440              | 87,472               |
| LCR level 2 Assets  | 127                     | -                   | -                    | -                       | -                   | -                    |
| Non-LCR Eligible Assets   | -                       | -                   | -                    | 88                      | -                   | -                    |
| Primary liquidity   | 157,662                 | 115,240             | 113,207              | 124,920                 | 89,440              | 87,472               |
| Secondary liquidity (4)   | 84,910                  | 84,427              | 81,835               | 74,431                  | 74,187              | 73,332               |
| Total liquidity value   | 242,572                 | 199,667             | 195,042              | 199,351                 | 163,627             | 160,804              |

#### Notes:

- (1) NatWest Group includes UK DoLSub, NatWest Markets Plc and other significant operating subsidiaries that hold liquidity portfolios. These include The Royal Bank of Scotland International Limited, NWM N.V. and Ulster Bank Ireland DAC who hold managed portfolios that comply with local regulations that may differ from PRA rules.
- (2) NWH Group comprises UK DoLSub & Ulster Bank Ireland DAC who hold managed portfolios that comply with local regulations that may differ from PRA rules.
- (3) UK DoLSub comprises NatWest Group's four licensed deposit-taking UK banks within the ring-fenced bank: NWB Plc, RBS plc, Coutts & Company and Ulster Bank Limited.
- (4) Comprises assets eligible for discounting at the Bank of England and other central banks.
- (5) Liquidity portfolio table approach has been aligned to the ILAAP methodology with effect from December 2019.
- (6) NatWest Markets Plc liquidity portfolio is reported in the NatWest Markets Plc Company Announcement.

## Capital and risk management

### Credit risk

#### 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 asset class and where relevant, industry sector and region) are based on a selected, small number of economic factors, (typically two 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 for the Personal portfolio include the unemployment rate, house price indices as well as the Bank of England and the European Central Bank base rates. For the Wholesale portfolio, in addition to interest and unemployment rates, national gross domestic product (GDP), stock price indices and world GDP are primary loss drivers.

##### Economic scenarios

The range of anticipated future economic conditions is described by a set of four internally developed scenarios and their respective probabilities. In a change from previous quarters, two scenarios are used instead of a single base case to describe the central outlook. This reflects increased uncertainty as a result of Covid-19 and the difficulty in identifying a consensus among economic forecasters. Those two central scenarios are complemented by an upside and a downside scenario.

As at 31 December 2019, NatWest Group used five discrete scenarios to characterise the distribution of risks in the economic outlook. In contrast, the four scenarios set out below were deemed appropriate in capturing the uncertainty in economic forecasts and the non-linearity in outcomes under different scenarios. These four scenarios were developed to provide sufficient coverage across potential rises in unemployment, asset price falls and degree of permanent damage to the economy, around which there are pronounced levels of uncertainty at this stage.

The tables and commentary below provide details of the key economic loss drivers under the four scenarios. The average over the five-year horizon (2020 to 2024) for the two central scenarios and upside and downside scenarios used for expected credit loss (ECL) modelling, are set out below. It is compared with the five-year average (2020 to 2024) of the 2019 scenarios.

The scenarios are specified on a quarterly frequency. The extreme points refer to worst four-quarter rate of change for GDP and house price inflation and worst quarterly figures for unemployment.

##### Five-year average

|  | 30 June 2020 |                |                |               | 31 December 2019 |               |                |                 |                 |
|--|--------------|----------------|----------------|---------------|------------------|---------------|----------------|-----------------|-----------------|
|  | Upside<br>%  | Central 1<br>% | Central 2<br>% | Downside<br>% | Upside 2<br>%    | Upside 1<br>% | Base case<br>% | Downside 1<br>% | Downside 2<br>% |
| <b>UK</b>                                |              |                |                |               |                  |               |                |                 |                 |
| GDP - change                             | 1.4          | 1.5            | 0.6            | (0.4)         | 2.4              | 2.2           | 1.6            | 1.3             | 0.9             |
| Unemployment                             | 5.1          | 5.5            | 7.4            | 9.9           | 3.6              | 3.9           | 4.4            | 4.7             | 5.2             |
| House Price Inflation - change           | 2.0          | 1.4            | 0.5            | (4.5)         | 4.1              | 3.3           | 1.6            | 0.8             | (1.0)           |
| Bank of England base rate                | 0.2          | 0.2            | 0.1            | (0.2)         | 1.0              | 0.7           | 0.3            | -               | -               |
| Commercial real estate price<br>- change | (0.5)        | (1.2)          | (2.3)          | (8.6)         | 2.7              | 1.7           | (0.1)          | (1.0)           | (3.0)           |
| <b>Republic of Ireland</b>               |              |                |                |               |                  |               |                |                 |                 |
| GDP - change                             | 2.9          | 2.6            | 1.8            | 0.2           | 3.9              | 3.6           | 2.8            | 2.4             | 1.9             |
| Unemployment                             | 5.8          | 6.9            | 9.3            | 11.8          | 3.9              | 4.3           | 4.8            | 5.7             | 6.9             |
| House Price Inflation - change           | 2.3          | 2.2            | 1.1            | (0.9)         | 5.3              | 4.7           | 2.9            | 2.2             | 1.0             |
| European Central Bank base rate          | -            | -              | -              | -             | 1.6              | 0.9           | -              | -               | -               |
| World GDP - change                       | 2.8          | 2.9            | 2.0            | 1.3           | 3.8              | 3.3           | 2.8            | 2.5             | 2.1             |
| Probability weight                       | 20.0         | 35.0           | 35.0           | 10.0          | 12.7             | 14.8          | 30.0           | 29.7            | 12.7            |

##### Note:

- (1) Probability weights for the Republic of Ireland were symmetrical with 15% on the upside and downside. Weightings for Ulster Bank RoI reflect the relative severity of scenarios in a Republic of Ireland context.

## Capital and risk management

### Credit risk continued

#### Five-year average

#### GDP - annual growth

|           | Upside<br>% | Central 1<br>% | Central 2<br>% | Downside<br>% |                            | Upside<br>% | Central 1<br>% | Central 2<br>% | Downside<br>% |
|-----------|-------------|----------------|----------------|---------------|----------------------------|-------------|----------------|----------------|---------------|
| <b>UK</b> |             |                |                |               | <b>Republic of Ireland</b> |             |                |                |               |
| 2020      | (8.9)       | (14.3)         | (14.1)         | (16.9)        | 2020                       | (8.9)       | (10.5)         | (16.3)         | (20.3)        |
| 2021      | 10.1        | 15.4           | 11.2           | 5.3           | 2021                       | 14.2        | 9.9            | 16.4           | 5.5           |
| 2022      | 2.7         | 3.4            | 2.3            | 6.4           | 2022                       | 4.1         | 6.3            | 3.6            | 8.1           |
| 2023      | 1.6         | 1.6            | 2.0            | 1.7           | 2023                       | 2.6         | 4.9            | 3.1            | 5.3           |
| 2024      | 1.6         | 1.6            | 1.6            | 1.6           | 2024                       | 2.4         | 2.4            | 2.4            | 2.4           |

#### Unemployment rate

|           | Upside<br>% | Central 1<br>% | Central 2<br>% | Downside<br>% |                            | Upside<br>% | Central 1<br>% | Central 2<br>% | Downside<br>% |
|-----------|-------------|----------------|----------------|---------------|----------------------------|-------------|----------------|----------------|---------------|
| <b>UK</b> |             |                |                |               | <b>Republic of Ireland</b> |             |                |                |               |
| Q4 2020   | 7.4         | 9.2            | 9.8            | 14.4          | Q4 2020                    | 8.2         | 9.7            | 13.2           | 16.6          |
| Q4 2021   | 4.8         | 5.0            | 7.8            | 10.9          | Q4 2021                    | 5.5         | 7.3            | 10.0           | 13.7          |
| Q4 2022   | 4.1         | 4.0            | 6.7            | 9.1           | Q4 2022                    | 4.7         | 5.6            | 8.3            | 11.0          |
| Q4 2023   | 4.1         | 4.0            | 6.0            | 7.6           | Q4 2023                    | 4.8         | 5.0            | 6.9            | 8.7           |
| Q4 2024   | 4.1         | 4.0            | 5.9            | 6.9           | Q4 2024                    | 4.9         | 5.1            | 6.8            | 8.5           |

#### House Price Inflation - annual growth

|           | Upside<br>% | Central 1<br>% | Central 2<br>% | Downside<br>% |                            | Upside<br>% | Central 1<br>% | Central 2<br>% | Downside<br>% |
|-----------|-------------|----------------|----------------|---------------|----------------------------|-------------|----------------|----------------|---------------|
| <b>UK</b> |             |                |                |               | <b>Republic of Ireland</b> |             |                |                |               |
| 2020      | (0.1)       | (8.9)          | (9.3)          | (11.5)        | 2020                       | (3.4)       | (6.0)          | (10.1)         | (13.6)        |
| 2021      | 0.6         | 3.6            | (5.1)          | (14.9)        | 2021                       | (1.6)       | (6.8)          | (9.8)          | (17.3)        |
| 2022      | 2.4         | 6.4            | 7.1            | 0.7           | 2022                       | 7.2         | 11.8           | 11.1           | 9.7           |
| 2023      | 3.5         | 3.2            | 6.4            | 1.5           | 2023                       | 5.8         | 7.9            | 7.9            | 9.8           |
| 2024      | 3.8         | 2.6            | 3.5            | 1.6           | 2024                       | 3.7         | 4.0            | 6.5            | 7.2           |

#### Commercial real estate price - annual change

|           | Upside<br>% | Central 1<br>% | Central 2<br>% | Downside<br>% |
|-----------|-------------|----------------|----------------|---------------|
| <b>UK</b> |             |                |                |               |
| 2020      | (7.5)       | (16.0)         | (22.1)         | (20.9)        |
| 2021      | 2.2         | 1.9            | (0.7)          | (20.3)        |
| 2022      | 1.3         | 6.3            | 7.3            | (8.1)         |
| 2023      | 0.4         | 1.5            | 2.2            | 3.2           |
| 2024      | 1.0         | 0.6            | 1.6            | 3.2           |

#### Extreme points

|   | Worst points |                |                |               |                 |                 |
|---|--------------|----------------|----------------|---------------|-----------------|-----------------|
|   | H1 2020      |                |                |               | H2 2019         |                 |
|   | Upside<br>%  | Central 1<br>% | Central 2<br>% | Downside<br>% | Downside 1<br>% | Downside 2<br>% |
| <b>UK</b>                                   |              |                |                |               |                 |                 |
| GDP (year-on-year)                          | (17.1)       | (27.7)         | (26.6)         | (28.0)        | (0.2)           | (1.8)           |
| Unemployment                                | 7.6          | 9.5            | 12.0           | 15.1          | 4.9             | 5.5             |
| House Price Inflation (year-on-year)        | (0.7)        | (13.7)         | (14.9)         | (20.4)        | (3.5)           | (8.4)           |
| Commercial real estate price (year-on-year) | (10.2)       | (21.2)         | (27.2)         | (31.0)        | (8.2)           | (12.6)          |

|                                      | Worst points |                |                |               |                 |                 |
|--------------------------------------|--------------|----------------|----------------|---------------|-----------------|-----------------|
|                                      | H1 2020      |                |                |               | H2 2019         |                 |
|                                      | Upside<br>%  | Central 1<br>% | Central 2<br>% | Downside<br>% | Downside 1<br>% | Downside 2<br>% |
| <b>Republic of Ireland</b>           |              |                |                |               |                 |                 |
| GDP (year-on-year)                   | (19.0)       | (20.6)         | (32.7)         | (34.7)        | 0.5             | (2.1)           |
| Unemployment                         | 9.0          | 14.8           | 16.9           | 17.7          | 5.8             | 7.3             |
| House Price Inflation (year-on-year) | (8.0)        | (15.1)         | (22.3)         | (30.8)        | (2.6)           | (8.4)           |

#### Probability weightings of scenarios

NatWest 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. Previously GDP paths for NatWest 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. This approach does not produce meaningful outcomes in the current circumstances because GDP is highly volatile and highly uncertain.

## Capital and risk management

### Credit risk continued

Instead, NatWest Group has subjectively applied probability weights, reflecting expert views within NatWest Group. The probability weight assignment was judged to present good coverage to the central scenarios and the potential for a far more robust recovery on the upside and exceptionally challenging outcome on the downside. A 20% weighting was applied to the upside scenario, a 35% weighting on each central scenario and a 10% weighting on the downside scenario. NatWest Group judged a downside-biased weighting as placing too much weight on negative outcomes.

### Use of the scenarios in Personal Banking

Personal Banking follows a discrete scenario approach which means that ECL is calculated based on the probability of default (PD) and loss given default (LGD) values that arise directly from the probability weighted averages across all four economic scenarios.

### Use of the scenarios in Wholesale Lending

The Wholesale Lending methodology is based on the concept of credit cycle indices (CCI). The CCI represents all relevant economic loss drivers for a region/industry segment aggregated into a single index value describing the loss rate conditions in the respective segment relative to its long run average. That means 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 outlined above are translated into individual projections of CCIs for each region/industry segment which are then subsequently aggregated into a single central CCI projection by calculating a weighted average according to the given scenario probabilities. The CCI projection for each economic scenario, and by extension the weighted central CCI projection, are overlaid with an additional assumption that after one to two years into the forecast period credit cycle conditions gradually revert to long-run average conditions, i.e. CCI values mean revert to zero.

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

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

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

### Covid-19 – estimating ECL in uncertain times

Almost all areas of the global economy, in terms of both individuals and businesses, have been adversely affected by the unprecedented economic and social disruption resulting from Covid-19. The impact of the virus has led to the creation of significant government and central bank mechanisms to support businesses and individuals. Uncertainty remained elevated during H1 2020 and the severity of the economic impact becomes increasingly observable in key economic data such as GDP and unemployment. This crisis has created an unprecedented challenge for IFRS 9 ECL modelling, given the severity of economic shock and associated uncertainty for the future economic path coupled with the scale of government and central bank intervention and Covid-19 relief mechanisms that have altered the relationships between economic drivers and default.

The NatWest Group approach to dealing with this challenge is to leverage stress test modelling insights to inform IFRS 9 model refinements to enable modelled ECL estimates. Management review of modelling approaches and outcomes continues to inform any necessary adjustments to the ECL estimates through the form of in-model adjustments or overlays/underlays, based on expert judgement including the use of available information. Management considerations included the potential severity and duration of the economic shock, including the mitigating effects of government support actions, as well the potential trajectory of the subsequent recovery. NatWest Group also considered differential impacts on portfolio and sector classes, including pronouncements from regulatory bodies regarding IFRS 9 application in the context of Covid-19, notably on significant increase in credit risk (SICR) identification.

The modelling interventions described above and the severity of the MES scenarios underpinning the ECL estimate have alleviated the need for a dedicated economic uncertainty overlay. Consequently, the existing overlay for economic uncertainty at Q1 2020 of £798 million was absorbed through the H1 2020 modelled ECL estimate.

### Treatment of Covid-19 relief mechanisms

Use of Covid-19 relief mechanisms (for example, payment holidays, CBILS and BBLS) will not automatically merit identification of SICR and trigger a Stage 2 classification in isolation. For Personal products, where detailed information surrounding the customer situation may not be readily available, movements in account PD – which includes the effect of customer account behaviour as well as forward-looking economics – continued to be the key determinant of a SICR. This assessment was supplemented by an analysis of high-risk identifiers.

## Capital and risk management

### Credit risk continued

For Wholesale customers, at H1 2020, lifetime PD deterioration remains the primary driver of SICR identification, amplified by the forward-looking economics. NatWest Group continues to provide support, where appropriate, to existing customers. Those who are deemed either to require a) a prolonged timescale to return within NatWest Group's risk appetite or b) not to be viable pre-crisis or c) not to be able to sustain their debt once the crisis is over will trigger a SICR and, if concessions are sought, be categorised as forborne, in line with regulatory guidance.

As some of the government support mechanisms conclude, NatWest Group anticipates further credit deterioration in the portfolios. 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 NatWest Group operates, but also, among others:

- The timing and nature of governmental exit plans from lockdown, notably in UK and the Republic of Ireland, and any future repeated lockdown requirements.
- The progress of the pandemic, with potential for changes in worker/consumer behaviour and sickness levels.
- 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.
- Any further damage to certain supply chains, most notably in the case of any re-tightening of lockdown rules but also delays caused by social distancing measures and possible export/import controls.
- The level of revenues lost by corporate clients and pace of recovery of those revenues may affect NatWest Group's clients' ability to service their borrowing, especially in those sectors most exposed to the impacts of Covid-19.
- Higher unemployment if companies fail to restart jobs after periods of staff furlough.

This could potentially lead to further ECL increases. However, the income statement impact of this will be mitigated to some extent by the forward-looking provisions taken at H1 2020.

### Model performance

To date, model performance monitoring has not identified any noticeable increases in default or loss rates in Wholesale Lending or Personal Banking. This is not unexpected given the recent impact of Covid-19 and the implementation of government interventions aiming to delay and/or mitigate its impact on the economy. As a result, it is too early to meaningfully assess model performance against the actual impact.

Nonetheless, Covid-19 has already had a significant impact on the forward-looking economic information used by the IFRS 9 models in calculating ECL. While the central scenario used previously implied largely a continuation of current conditions, the central scenarios assumed now forecast a dramatic deterioration in conditions on a magnitude typically observed for severe stresses but with the deterioration and subsequent recovery compressed into a much shorter time frame than typical economic cycles. This extreme and unusual nature of the scenarios considered has highlighted several limitations in the components of the Wholesale methodology that translate projected economic loss drivers into aggregate default and loss rate conditions at portfolio level. To account for these limitations, a number of refinements and changes have been applied to the respective model components to ensure that the ECL outcome is reasonable, not only in aggregate, but at industry sector level and with regard to the timing in which deteriorating economics translate into default and loss outcomes. More specifically, the following key adjustments have been applied to the modelled forward-looking economic conditions for the Wholesale portfolios:

- **Scenario profile** – The previously unseen, extreme movements and quarterly variations in some economic loss drivers (most notably year-on-year change in UK GDP) are extrapolated by some Wholesale models into unrealistically high default rate outcomes. Where necessary, judgement was applied to adjust model outcomes to more appropriate levels based on peak default rates observed in previous crises and other existing stress scenario analysis, including the 2019 Bank of England annual cyclical scenario.
- **Government support** – The temporal profile of projected default and loss conditions was further adjusted to account for the expected impact of government interventions where those are not already reflected in the scenario's economic loss drivers. These adjustments result in both a delay and a reduction in the peak level of default and loss rates that would have been expected under the projected economic loss drivers without government intervention. The specification of the parameters of the adjustments – while guided by the level and characteristics of loans extended under the various government guarantee schemes – involve a considerable level of expert judgement.
- **Industry sector detail** – The current suite of models for the Wholesale portfolios provides limited differentiation by industry sector. This approach is based on the data from the global financial crisis which exhibited a very high correlation across industry sectors. In contrast, the impact from Covid-19 is highly differentiated by industry sector and accordingly adjustments have been applied to implement an appropriate differentiation in the severity of projected default rate conditions for different sectors. The categorisation of industry sectors and scale of adjustments have been informed by a combination of expert judgement and external market data.

## Capital and risk management

### Credit risk continued

For the UK Personal Banking portfolio, the forward-looking components of the IFRS 9 PD models were also modified leveraging existing stress testing models to ensure that PDs appropriately reflect the forecasts for unemployment and house prices in particular. Additionally, post model ECL adjustments were made to ensure that the ECL was adjusted for known model over and under-predictions pending the systematic calibration of the underlying models.

The in-model adjustments have been applied in order to weight the PD and LGD estimates within the core ECL calculation process and therefore consistently and systematically inform stage allocation and ECL quantification.

### Government guarantees

During March and April 2020, the UK government launched a series of temporary schemes designed to support businesses deal with the impact of Covid-19. The BBLs, CBILs and CLBILs lending products are originated by NatWest Group but are covered by government guarantees. These are to be set against the outstanding balance of a defaulted facility after the proceeds of the business assets have been applied. The government guarantee is 80% for CBILs and CLBILs and 100% for BBLs. NatWest Group recognises lower LGDs for these lending products as a result, with 0% applied to the government-guaranteed part of the exposure.

Notwithstanding the government guarantees, NatWest Group's measurements of PD are unaffected and NatWest Group continues to move exposures to Stage 2 and Stage 3 where a significant deterioration in credit risk or a default is identified.

### Wholesale support schemes

The table below shows the uptake of BBLs, CBILs and CLBILs in Wholesale, by sector.

|                                    | BBL            |                      |                           | CBIL          |                      |                           | CLBIL      |                      |                            |
|------------------------------------|----------------|----------------------|---------------------------|---------------|----------------------|---------------------------|------------|----------------------|----------------------------|
|                                    | Volume         | Drawdown amount (£m) | % of BBIL to Sector loans | Volume        | Drawdown amount (£m) | % of CBIL to Sector loans | Volume     | Drawdown amount (£m) | % of CLBIL to Sector loans |
| <b>30 June 2020</b>                |                |                      |                           |               |                      |                           |            |                      |                            |
| <b>Wholesale lending by sector</b> |                |                      |                           |               |                      |                           |            |                      |                            |
| Airlines and aerospace             | 175            | 5                    | 0.21%                     | 17            | 4                    | 0.17%                     | -          | -                    | -                          |
| Automotive                         | 9,267          | 309                  | 4.07%                     | 495           | 111                  | 1.46%                     | 26         | 22                   | 0.29%                      |
| Education                          | 1,347          | 36                   | 2.11%                     | 83            | 21                   | 1.23%                     | 4          | 30                   | 1.76%                      |
| Health                             | 6,976          | 222                  | 3.78%                     | 543           | 69                   | 1.17%                     | 2          | 5                    | 0.09%                      |
| Land transport and logistics       | 6,222          | 181                  | 3.94%                     | 306           | 66                   | 1.44%                     | 2          | 3                    | 0.07%                      |
| Leisure                            | 22,776         | 715                  | 7.13%                     | 1,697         | 305                  | 3.04%                     | 16         | 11                   | 0.11%                      |
| Oil and gas                        | 197            | 6                    | 0.29%                     | 13            | 5                    | 0.24%                     | -          | -                    | -                          |
| Retail                             | 23,824         | 808                  | 10.19%                    | 1,395         | 328                  | 4.14%                     | 13         | 48                   | 0.61%                      |
| Shipping                           | 113            | 4                    | 0.34%                     | 15            | 3                    | 0.25%                     | 2          | -                    | -                          |
| Textiles                           | 844            | 25                   | 13.37%                    | 94            | 18                   | 9.63%                     | 2          | -                    | -                          |
| Property                           | 12,284         | 402                  | 0.99%                     | 327           | 64                   | 0.16%                     | 4          | 10                   | 0.02%                      |
| Other (including Business Banking) | 116,382        | 3,082                | 3.40%                     | 8,742         | 1,406                | 1.55%                     | 72         | 52                   | 0.06%                      |
| <b>Total</b>                       | <b>200,408</b> | <b>5,795</b>         | <b>3.32%</b>              | <b>13,727</b> | <b>2,400</b>         | <b>1.38%</b>              | <b>143</b> | <b>181</b>           | <b>0.10%</b>               |

Notes:

(1) The table contains some cases which as at 30 June 2020 were approved but not yet drawn upon.

(2) Approved limits as at 30 June 2020 were as follows: BBLs – £6.1 billion; CBILs – £3.3 billion; and CLBILs – £0.7 billion.

## Capital and risk management

### Credit risk continued

#### Mortgage payment holidays/breaks by stage

The tables below show payment holidays in UK Personal Banking and payment breaks in Ulster Bank Rol, by loan-to-value (LTV) band and by stage. They show live payment holidays as at 30 June 2020, including any agreed second payment holidays. They exclude cases which have been completed prior to this date.

| UK Personal Banking | Mortgages     |              |           |                             |               | ECL      |           |           |           | Proportion of mortgage portfolio |             |            |             |
|---------------------|---------------|--------------|-----------|-----------------------------|---------------|----------|-----------|-----------|-----------|----------------------------------|-------------|------------|-------------|
|                     | Stage 1       | Stage 2      | Stage 3   | Not within IFRS 9 ECL scope | Total         | Stage 1  | Stage 2   | Stage 3   | Total     | Stage 1                          | Stage 2     | Stage 3    | Total       |
| 30 June 2020        | £m            | £m           | £m        | £m                          | £m            | £m       | £m        | £m        | £m        | %                                | %           | %          | %           |
| ≤50%                | 4,441         | 661          | 31        | 4                           | 5,137         | -        | 4         | 5         | 9         | 9.2                              | 14.7        | 5.8        | 9.6         |
| >50% and ≤70%       | 6,722         | 1,226        | 30        | 1                           | 7,979         | 1        | 8         | 4         | 13        | 13.7                             | 19.4        | 6.2        | 14.3        |
| >70% and ≤80%       | 3,159         | 1,447        | 11        | -                           | 4,617         | 1        | 9         | 2         | 12        | 15.8                             | 21.3        | 6.2        | 17.1        |
| >80 and ≤90%        | 1,727         | 1,356        | 6         | -                           | 3,089         | -        | 13        | 1         | 14        | 16.8                             | 23.8        | 7.8        | 19.3        |
| >90% and ≤100%      | 378           | 121          | 1         | -                           | 500           | -        | 2         | -         | 2         | 18.5                             | 25.1        | 2.3        | 19.7        |
| >100% and ≤110%     | 1             | 4            | -         | -                           | 5             | -        | 1         | -         | 1         | 3.4                              | 9.8         | -          | 7.3         |
| >110% and ≤130%     | 2             | 3            | -         | -                           | 5             | -        | -         | -         | -         | 5.6                              | 6.3         | -          | 5.8         |
| >130 and ≤150%      | -             | 2            | -         | -                           | 2             | -        | -         | -         | -         | -                                | 9.0         | -          | 5.5         |
| >150%               | -             | -            | -         | -                           | -             | -        | -         | -         | -         | -                                | -           | -          | -           |
| <b>Total</b>        | <b>16,430</b> | <b>4,820</b> | <b>79</b> | <b>5</b>                    | <b>21,334</b> | <b>2</b> | <b>37</b> | <b>12</b> | <b>51</b> | <b>12.7</b>                      | <b>20.1</b> | <b>6.0</b> | <b>13.8</b> |

Note:

(1) Total payment holidays in the period up until 30 June 2020 were £33.6 billion (22% of the UK Personal Banking mortgage portfolio).

| Ulster Bank Rol | Mortgages  |            |            |                             |            | ECL      |           |           |           | Proportion of mortgage portfolio |             |             |            |
|-----------------|------------|------------|------------|-----------------------------|------------|----------|-----------|-----------|-----------|----------------------------------|-------------|-------------|------------|
|                 | Stage 1    | Stage 2    | Stage 3    | Not within IFRS 9 ECL scope | Total      | Stage 1  | Stage 2   | Stage 3   | Total     | Stage 1                          | Stage 2     | Stage 3     | Total      |
| 30 June 2020    | £m         | £m         | £m         | £m                          | £m         | £m       | £m        | £m        | £m        | %                                | %           | %           | %          |
| ≤50%            | 148        | 115        | 49         | -                           | 312        | -        | 5         | 13        | 18        | 3.5                              | 21.4        | 11.9        | 6.1        |
| >50% and ≤70%   | 139        | 119        | 44         | -                           | 302        | -        | 5         | 11        | 16        | 4.1                              | 21.9        | 14.8        | 7.2        |
| >70% and ≤80%   | 47         | 62         | 23         | -                           | 132        | -        | 3         | 7         | 10        | 3.4                              | 19.0        | 15.1        | 7.1        |
| >80 and ≤90%    | 40         | 53         | 21         | -                           | 114        | -        | 3         | 7         | 10        | 3.8                              | 15.7        | 14.1        | 7.4        |
| >90% and ≤100%  | 2          | 42         | 16         | -                           | 60         | -        | 2         | 6         | 8         | 0.8                              | 17.3        | 12.4        | 9.3        |
| >100% and ≤110% | 1          | 17         | 13         | -                           | 31         | -        | 1         | 5         | 6         | 0.9                              | 12.5        | 13.2        | 9.5        |
| >110% and ≤130% | -          | 13         | 9          | -                           | 22         | -        | 1         | 4         | 5         | -                                | 15.8        | 9.0         | 9.8        |
| >130 and ≤150%  | -          | 1          | 3          | -                           | 4          | -        | -         | 2         | 2         | -                                | 21.2        | 10.8        | 11.3       |
| >150%           | -          | 1          | -          | -                           | 1          | -        | -         | -         | -         | -                                | 8.2         | 4.1         | 4.8        |
| <b>Total</b>    | <b>377</b> | <b>423</b> | <b>178</b> | <b>-</b>                    | <b>978</b> | <b>-</b> | <b>20</b> | <b>55</b> | <b>75</b> | <b>3.6</b>                       | <b>19.1</b> | <b>13.0</b> | <b>7.0</b> |

Note:

(1) Total payment breaks in the period up until 30 June 2020 were £1.8 billion (13% of the Ulster Bank Rol mortgage portfolio).

#### 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 the H1 2020 balance sheet date.

Stage 3 provisions are not subject to the same level of measurement uncertainty – default is an observed event as at the balance sheet date, unsecured portfolio LGDs do not vary between scenarios, plus repossession periods in the UK mean that short term volatility in HPI does not translate directly to additional loss. Stage 3 provisions therefore have not been considered in this analysis.

The impact arising from the downside, upside and the central 1 scenarios has been simulated. These scenarios are three of the four discrete scenarios used in the methodology for Personal MES. In the simulations, NatWest Group has assumed that the economic macro variables associated with these scenarios replace the existing base case economic assumptions, giving them a 100% probability weighting and thus 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 overlays present in the underlying ECL estimates are also sensitised. 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, policy changes by lenders that might impact on the wider availability of credit.

## Capital and risk management

### Credit risk continued

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

| <b>30 June 2020</b>                              | <b>Actual</b>  | <b>Upside</b>  | <b>Central 1</b> | <b>Downside</b> |
|--|----------------|----------------|------------------|-----------------|
| Stage 1 modelled exposure (£m)                   |                |                |                  |                 |
| UK Personal Banking                              | <b>134,398</b> | <b>146,496</b> | <b>142,448</b>   | <b>100,658</b>  |
| Ulster Bank RoI Personal & Business Banking      | <b>10,766</b>  | <b>11,300</b>  | <b>11,268</b>    | <b>9,367</b>    |
| Wholesale  | <b>235,333</b> | <b>263,206</b> | <b>242,672</b>   | <b>223,386</b>  |
| Stage 1 modelled ECL (£m)                        |                |                |                  |                 |
| UK Personal Banking                              | <b>154</b>     | <b>154</b>     | <b>159</b>       | <b>114</b>      |
| Ulster Bank RoI Personal & Business Banking      | <b>18</b>      | <b>16</b>      | <b>18</b>        | <b>19</b>       |
| Wholesale  | <b>274</b>     | <b>289</b>     | <b>278</b>       | <b>284</b>      |
| Stage 1 coverage (%)                             |                |                |                  |                 |
| UK Personal Banking                              | <b>0.11%</b>   | <b>0.11%</b>   | <b>0.11%</b>     | <b>0.11%</b>    |
| Ulster Bank RoI Personal & Business Banking      | <b>0.17%</b>   | <b>0.14%</b>   | <b>0.16%</b>     | <b>0.20%</b>    |
| Wholesale  | <b>0.12%</b>   | <b>0.11%</b>   | <b>0.11%</b>     | <b>0.13%</b>    |
| Stage 2 modelled exposure (£m)                   |                |                |                  |                 |
| UK Personal Banking                              | <b>28,575</b>  | <b>16,477</b>  | <b>20,525</b>    | <b>62,314</b>   |
| Ulster Bank RoI Personal & Business Banking      | <b>2,352</b>   | <b>1,819</b>   | <b>1,850</b>     | <b>3,751</b>    |
| Wholesale  | <b>65,908</b>  | <b>38,034</b>  | <b>58,569</b>    | <b>77,855</b>   |
| Stage 2 modelled ECL (£m)                        |                |                |                  |                 |
| UK Personal Banking                              | <b>900</b>     | <b>630</b>     | <b>760</b>       | <b>1,641</b>    |
| Ulster Bank RoI Personal & Business Banking      | <b>110</b>     | <b>83</b>      | <b>91</b>        | <b>174</b>      |
| Wholesale  | <b>1,984</b>   | <b>891</b>     | <b>1,661</b>     | <b>3,071</b>    |
| Stage 2 coverage (%)                             |                |                |                  |                 |
| UK Personal Banking                              | <b>3.15%</b>   | <b>3.82%</b>   | <b>3.70%</b>     | <b>2.63%</b>    |
| Ulster Bank RoI Personal & Business Banking      | <b>4.69%</b>   | <b>4.58%</b>   | <b>4.89%</b>     | <b>4.63%</b>    |
| Wholesale  | <b>3.01%</b>   | <b>2.34%</b>   | <b>2.84%</b>     | <b>3.94%</b>    |
| Stage 1 and Stage 2 modelled exposure (£m)       |                |                |                  |                 |
| UK Personal Banking                              | <b>162,973</b> | <b>162,973</b> | <b>162,973</b>   | <b>162,973</b>  |
| Ulster Bank RoI Personal & Business Banking      | <b>13,118</b>  | <b>13,118</b>  | <b>13,118</b>    | <b>13,118</b>   |
| Wholesale  | <b>301,240</b> | <b>301,240</b> | <b>301,240</b>   | <b>301,240</b>  |
| Stage 1 and Stage 2 modelled ECL (£m)            |                |                |                  |                 |
| UK Personal Banking                              | <b>1,054</b>   | <b>784</b>     | <b>919</b>       | <b>1,755</b>    |
| Ulster Bank RoI Personal & Business Banking      | <b>129</b>     | <b>99</b>      | <b>109</b>       | <b>193</b>      |
| Wholesale  | <b>2,258</b>   | <b>1,180</b>   | <b>1,939</b>     | <b>3,355</b>    |
| Stage 1 and Stage 2 coverage (%)                 |                |                |                  |                 |
| UK Personal Banking                              | <b>0.65%</b>   | <b>0.48%</b>   | <b>0.56%</b>     | <b>1.08%</b>    |
| Ulster Bank RoI Personal & Business Banking      | <b>0.98%</b>   | <b>0.76%</b>   | <b>0.83%</b>     | <b>1.47%</b>    |
| Wholesale  | <b>0.75%</b>   | <b>0.39%</b>   | <b>0.64%</b>     | <b>1.11%</b>    |
| Reconciliation to Stage 1 and Stage 2 ECL (£m)   |                |                |                  |                 |
| ECL on modelled exposures                        | <b>3,441</b>   | <b>2,063</b>   | <b>2,967</b>     | <b>5,303</b>    |
| ECL on non-modelled exposures                    | <b>53</b>      | <b>53</b>      | <b>53</b>        | <b>53</b>       |
| Total Stage 1 and Stage 2 ECL                    | <b>3,494</b>   | <b>2,116</b>   | <b>3,020</b>     | <b>5,356</b>    |
| Variance to actual total Stage 1 and Stage 2 ECL |                | <b>(1,378)</b> | <b>(474)</b>     | <b>1,862</b>    |

#### Notes:

- (1) Variations in future undrawn exposure values across the scenarios are modelled, however the exposure position reported is as at 30 June 2020 and therefore does not include variation in future undrawn exposure values.
- (2) The table above reflects ECL for all modelled exposure in scope for IFRS 9; in addition to loans this includes bonds and cash. The analysis excludes non-modelled portfolios.
- (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 at the H1 2020 balance sheet date.
- (4) Refer to page 28 for details of economic scenarios.
- (5) 2019 comparatives are not included as the sensitivity scenario analysis relates to the H1 2020 balance sheet position. Refer to the NatWest Group plc (formerly The Royal Bank of Scotland Group plc) 2019 Annual Report and Accounts for the sensitivity analysis carried out at that time.

## Capital and risk management

### Credit risk continued

#### Key points

- The outlook for the financial year 2020 ECL charge (disclosed on page 2) is £3.5 billion to £4.5 billion. However, the economic outcomes are very uncertain and if the economics are as adverse as the downside scenario, the Stage 1 and Stage 2 charge would be at least £1.9 billion higher.
- In the downside scenario, UK Personal and Wholesale portfolios reached a similar level of coverage (1.08% and 1.11% respectively), however, this represented a greater increase in provision for the UK Personal portfolio.
- In arriving at the H1 2020 ECL position, Wholesale portfolios had already observed a larger proportionate increase in ECL and coverage, driven by a larger rise in Stage 2 size relative to Personal, which typically carries a higher level of Stage 2 through-the-cycle provision. Additionally, Personal portfolios, especially mortgages, are particularly responsive to changes in unemployment rate, leading to a greater increase in ECLs in the downside simulations in comparison to the Wholesale portfolio, where relative impacts of GDP and dampening effects of base rate resulted in a lower proportionate uplift.
- The upside release and the downside uplift were more symmetrical in Wholesale portfolios. This was at least partly due to the impact of credit mitigation by way of portfolio securitisations, which dampened the downside impacts. Additionally, the higher proportion of Stage 2 in the Wholesale portfolio at H1 2020 resulted in a larger benefit to the upside scenario. The impacts on retail reflected a more standard view of non-linearity of losses to the downside.
- Central 1 presented a marginal upside to the weighted average, but a step change in Stage 2 retail assets for the UK and the Republic of Ireland was noted. This reflected that a number of assets classed as Stage 2 under the weighted average had only just hurdled the SICR threshold.
- A higher coverage rate was observed in the Republic of Ireland portfolio compared with the UK Personal portfolio. This was due to higher coverage rates in the Republic of Ireland mortgage portfolio as compared with the UK mortgage portfolio. The Republic of Ireland portfolio appeared more responsive to economic simulations than the UK Personal portfolio. A larger upside benefit was observed, since the Republic of Ireland portfolio was heavily weighted towards mortgages and mortgage assets benefit more than personal unsecured lending in upside scenarios. The downside simulation indicated a larger uplift for the Republic of Ireland portfolio, reflecting the particular sensitivity of this portfolio to adverse unemployment rates and house price forecasts.

## Capital and risk management

### Credit risk – Banking activities

#### Introduction

This section details the credit risk profile of NatWest Group's banking activities.

#### Financial instruments within the scope of the IFRS 9 ECL framework

Refer to Note 8 for balance sheet analysis of financial assets that are classified as amortised cost (AC) or fair value through other comprehensive income (FVOCI), the starting point for IFRS 9 ECL framework assessment.

#### Financial assets

|  | 30 June<br>2020<br>£bn | 31 December<br>2019<br>£bn |
|--|------------------------|----------------------------|
| Balance sheet total gross AC and FVOCI | 541.6                  | 484.3                      |
| In scope of IFRS 9 ECL framework       | 530.0                  | 475.5                      |
| % in scope                             | 98%                    | 98%                        |
| Loans - in scope                       | 370.4                  | 340.0                      |
| Stage 1                                | 266.4                  | 305.5                      |
| Stage 2                                | 97.0                   | 27.9                       |
| Stage 3                                | 7.0                    | 6.6                        |
| Other financial assets - in scope      | 159.6                  | 135.5                      |
| Stage 1                                | 158.2                  | 135.5                      |
| Stage 2                                | 1.4                    | -                          |
| Out of scope of IFRS 9 ECL framework   | 11.6                   | 8.8                        |

Those assets outside the framework were as follows:

- Settlement balances, items in the course of collection, cash balances and other non-credit risk assets of £8.9 billion (31 December 2019 – £6.1 billion). These were assessed as having no ECL unless there was evidence that they were credit impaired.
- Equity shares of £0.8 billion (31 December 2019 – £0.9 billion) as not within the IFRS 9 ECL framework by definition.
- Fair value adjustments on loans hedged by interest rate swaps, where the underlying loan was within the IFRS 9 ECL scope – £1.5 billion (31 December 2019 – £1.1 billion).
- NatWest Group originated securitisations, where ECL was captured on the underlying loans of £0.4 billion (31 December 2019 – £0.4 billion).
- Commercial cards which operate in a similar manner to charge cards, with balances repaid monthly via mandated direct debit with the underlying risk of loss captured within the customer's linked current account of nil (31 December 2019 – £0.3 billion).

#### Contingent liabilities and commitments

In addition to contingent liabilities and commitments disclosed in Note 13 – reputationally-committed limits, are also included in the scope of the IFRS 9 ECL framework. These are offset by £0.1 billion (31 December 2019 – £2.6 billion) out of scope balances primarily related to facilities that, if drawn, would not be classified as AC or FVOCI, or undrawn limits relating to financial assets exclusions. Total contingent liabilities (including financial guarantees) and commitments within IFRS 9 ECL scope of £135.5 billion (31 December 2019 – £127.9 billion) comprised Stage 1 £89.0 billion (31 December 2019 – £121.7 billion); Stage 2 £45.7 billion (31 December 2019 – £5.6 billion); and Stage 3 £0.8 billion (31 December 2019 – £0.6 billion).

## Capital and risk management

### Credit risk – Banking activities continued

#### Portfolio summary – segment analysis

The table below shows gross loans and ECL, by segment and stage, within the scope of the IFRS 9 ECL framework.

|  | UK Personal<br>Banking<br>£m | Ulster<br>Bank Rol<br>£m | Commercial<br>Banking<br>£m | Private<br>Banking<br>£m | RBS<br>International<br>£m | NatWest<br>Markets<br>£m | Central items<br>& other<br>£m | Total<br>£m    |
|--|------------------------------|--------------------------|-----------------------------|--------------------------|----------------------------|--------------------------|--------------------------------|----------------|
| <b>30 June 2020</b>                                  |                              |                          |                             |                          |                            |                          |                                |                |
| <b>Loans - amortised cost and FVOCI</b>              |                              |                          |                             |                          |                            |                          |                                |                |
| Stage 1  | 136,065                      | 18,642                   | 53,514                      | 14,465                   | 12,697                     | 10,197                   | 20,864                         | 266,444        |
| Stage 2  | 28,270                       | 4,478                    | 58,374                      | 1,567                    | 1,825                      | 2,381                    | 115                            | 97,010         |
| Stage 3  | 2,052                        | 1,547                    | 2,806                       | 256                      | 195                        | 178                      | -                              | 7,034          |
| <i>Of which: individual</i>                          | -                            | 22                       | 1,727                       | 256                      | 195                        | 172                      | -                              | 2,372          |
| <i>Of which: collective</i>                          | 2,052                        | 1,525                    | 1,079                       | -                        | -                          | 6                        | -                              | 4,662          |
|  | <b>166,387</b>               | <b>24,667</b>            | <b>114,694</b>              | <b>16,288</b>            | <b>14,717</b>              | <b>12,756</b>            | <b>20,979</b>                  | <b>370,488</b> |
| <b>ECL provisions (1)</b>                            |                              |                          |                             |                          |                            |                          |                                |                |
| Stage 1  | 155                          | 42                       | 217                         | 21                       | 9                          | 18                       | 7                              | 469            |
| Stage 2  | 901                          | 262                      | 1,714                       | 49                       | 25                         | 53                       | 21                             | 3,025          |
| Stage 3  | 902                          | 567                      | 1,184                       | 29                       | 42                         | 136                      | -                              | 2,860          |
| <i>Of which: individual</i>                          | -                            | 4                        | 701                         | 29                       | 42                         | 129                      | -                              | 905            |
| <i>Of which: collective</i>                          | 902                          | 563                      | 483                         | -                        | -                          | 7                        | -                              | 1,955          |
|  | <b>1,958</b>                 | <b>871</b>               | <b>3,115</b>                | <b>99</b>                | <b>76</b>                  | <b>207</b>               | <b>28</b>                      | <b>6,354</b>   |
| <b>ECL provisions coverage (2,3)</b>                 |                              |                          |                             |                          |                            |                          |                                |                |
| Stage 1 (%)  | 0.11                         | 0.23                     | 0.41                        | 0.15                     | 0.07                       | 0.18                     | 0.03                           | 0.18           |
| Stage 2 (%)  | 3.19                         | 5.85                     | 2.94                        | 3.13                     | 1.37                       | 2.23                     | 18.26                          | 3.12           |
| Stage 3 (%)  | 43.96                        | 36.65                    | 42.20                       | 11.33                    | 21.54                      | 76.40                    | -                              | 40.66          |
|  | <b>1.18</b>                  | <b>3.53</b>              | <b>2.72</b>                 | <b>0.61</b>              | <b>0.52</b>                | <b>1.62</b>              | <b>0.13</b>                    | <b>1.72</b>    |
| <b>Half year ended 30 June 2020</b>                  |                              |                          |                             |                          |                            |                          |                                |                |
| <b>Impairment losses</b>                             |                              |                          |                             |                          |                            |                          |                                |                |
| ECL charge (4)                                       | 657                          | 243                      | 1,790                       | 56                       | 46                         | 40                       | 26                             | 2,858          |
| Stage 1  | 24                           | 12                       | 231                         | 16                       | 4                          | 10                       | 11                             | 308            |
| Stage 2  | 524                          | 186                      | 1,323                       | 39                       | 20                         | 43                       | 15                             | 2,150          |
| Stage 3  | 109                          | 45                       | 236                         | 1                        | 22                         | (13)                     | -                              | 400            |
| <i>Of which: individual</i>                          | -                            | (2)                      | 114                         | 1                        | 22                         | (4)                      | -                              | 131            |
| <i>Of which: collective</i>                          | 109                          | 47                       | 122                         | -                        | -                          | (9)                      | -                              | 269            |
| <b>ECL loss rate - annualised (basis points) (3)</b> |                              |                          |                             |                          |                            |                          |                                |                |
| Amounts written-off                                  | 117                          | 164                      | 120                         | 1                        | 2                          | 4                        | -                              | 408            |
| <i>Of which: individual</i>                          | -                            | -                        | 34                          | 1                        | 2                          | 4                        | -                              | 41             |
| <i>Of which: collective</i>                          | 117                          | 164                      | 86                          | -                        | -                          | -                        | -                              | 367            |

For the notes to this table refer to the following page.

## Capital and risk management

### Credit risk – Banking activities continued

#### Portfolio summary – segment analysis

|  | UK Personal<br>Banking<br>£m | Ulster<br>Bank Rol<br>£m | Commercial<br>Banking<br>£m | Private<br>Banking<br>£m | RBS<br>International<br>£m | NatWest<br>Markets<br>£m | Central items<br>& other<br>£m | Total<br>£m |
|--|------------------------------|--------------------------|-----------------------------|--------------------------|----------------------------|--------------------------|--------------------------------|-------------|
| <b>31 December 2019</b>                              |                              |                          |                             |                          |                            |                          |                                |             |
| <b>Loans - amortised cost and FVOCI</b>              |                              |                          |                             |                          |                            |                          |                                |             |
| Stage 1  | 144,513                      | 18,544                   | 88,100                      | 14,956                   | 14,834                     | 9,273                    | 15,282                         | 305,502     |
| Stage 2  | 13,558                       | 1,642                    | 11,353                      | 587                      | 545                        | 180                      | 3                              | 27,868      |
| Stage 3  | 1,902                        | 2,037                    | 2,162                       | 207                      | 121                        | 169                      | -                              | 6,598       |
| <i>Of which: individual</i>                          | -                            | 68                       | 1,497                       | 207                      | 121                        | 158                      | -                              | 2,051       |
| <i>Of which: collective</i>                          | 1,902                        | 1,969                    | 665                         | -                        | -                          | 11                       | -                              | 4,547       |
|  | 159,973                      | 22,223                   | 101,615                     | 15,750                   | 15,500                     | 9,622                    | 15,285                         | 339,968     |
| <b>ECL provisions (1)</b>                            |                              |                          |                             |                          |                            |                          |                                |             |
| Stage 1  | 114                          | 29                       | 152                         | 7                        | 4                          | 10                       | 6                              | 322         |
| Stage 2  | 467                          | 53                       | 214                         | 7                        | 6                          | 5                        | -                              | 752         |
| Stage 3  | 823                          | 693                      | 1,021                       | 29                       | 21                         | 131                      | -                              | 2,718       |
| <i>Of which: individual</i>                          | -                            | 22                       | 602                         | 29                       | 21                         | 122                      | -                              | 796         |
| <i>Of which: collective</i>                          | 823                          | 671                      | 419                         | -                        | -                          | 9                        | -                              | 1,922       |
|  | 1,404                        | 775                      | 1,387                       | 43                       | 31                         | 146                      | 6                              | 3,792       |
| <b>ECL provisions coverage (2,3)</b>                 |                              |                          |                             |                          |                            |                          |                                |             |
| Stage 1 (%)  | 0.08                         | 0.16                     | 0.17                        | 0.05                     | 0.03                       | 0.11                     | 0.04                           | 0.11        |
| Stage 2 (%)  | 3.44                         | 3.23                     | 1.88                        | 1.19                     | 1.10                       | 2.78                     | -                              | 2.70        |
| Stage 3 (%)  | 43.27                        | 34.02                    | 47.22                       | 14.01                    | 17.36                      | 77.51                    | -                              | 41.19       |
|  | 0.88                         | 3.49                     | 1.36                        | 0.27                     | 0.20                       | 1.52                     | 0.04                           | 1.12        |
| <b>Half year ended 30 June 2019</b>                  |                              |                          |                             |                          |                            |                          |                                |             |
| <b>Impairment losses</b>                             |                              |                          |                             |                          |                            |                          |                                |             |
| ECL charge (4)                                       | 181                          | (21)                     | 202                         | (3)                      | (3)                        | (36)                     | 3                              | 323         |
| Stage 1  | (53)                         | (24)                     | (55)                        | (5)                      | (3)                        | (2)                      | 2                              | (140)       |
| Stage 2  | 103                          | (38)                     | 38                          | (1)                      | -                          | (2)                      | 1                              | 101         |
| Stage 3  | 131                          | 41                       | 219                         | 3                        | -                          | (32)                     | -                              | 362         |
| <i>Of which: individual</i>                          | -                            | (4)                      | 200                         | 3                        | -                          | (29)                     | -                              | 170         |
| <i>Of which: collective</i>                          | 131                          | 45                       | 19                          | -                        | -                          | (3)                      | -                              | 192         |
| <b>ECL loss rate - annualised (basis points) (3)</b> |                              |                          |                             |                          |                            |                          |                                |             |
| Amounts written-off                                  | 90                           | 72                       | 276                         | 1                        | 2                          | 11                       | -                              | 452         |
| <i>Of which: individual</i>                          | -                            | 2                        | 227                         | 1                        | 2                          | 11                       | -                              | 243         |
| <i>Of which: collective</i>                          | 90                           | 70                       | 49                          | -                        | -                          | -                        | -                              | 209         |

#### Notes:

- (1) Includes £8 million (31 December 2019 – £4 million) related to assets classified as FVOCI.
- (2) ECL provisions coverage is calculated as ECL provisions divided by loans.
- (3) 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. The half year ECL charge is annualised by multiplying by two.
- (4) Includes a £5 million charge (30 June 2019 – £30 million charge) related to other financial assets, of which £4 million (30 June 2019 – nil) related to assets classified as FVOCI; and £8 million (30 June 2019 – £28 million) related to contingent liabilities.
- (5) The table above shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to page 90 for Financial instruments within the scope of the IFRS 9 ECL framework for further details. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totalling £99.2 billion and debt securities of £60.5 billion (31 December 2019 – £76.1 billion and £59.4 billion respectively).

#### Key points

- The ECL requirement increased significantly, primarily in Stage 1 and Stage 2 exposures, in anticipation of credit deterioration, reflecting the severity of the economic impact arising from Covid-19.
- The various customer support mechanisms available mitigate against flows to default in the short-term. Hence, there was a more limited impact on Stage 3 ECL requirements.
- Reflecting the deteriorated economic environment, the annualised loss rate was significantly above the previously advised view of a normalised blended long-term loss rate.

**Capital and risk management**  
**Credit risk – Banking activities continued**  
**Segmental loans and impairment metrics**

The table below shows gross loans and ECL provisions, by days past due, by segment and stage, within the scope of the ECL framework.

|                                  | Gross loans    |               |              |              |               |              | ECL provisions (2) |            |              |            |            |              |              |              |
|----------------------------------|----------------|---------------|--------------|--------------|---------------|--------------|--------------------|------------|--------------|------------|------------|--------------|--------------|--------------|
|                                  | Stage 2 (1)    |               |              |              |               |              | Stage 2 (1)        |            |              |            |            |              |              |              |
|                                  | Stage 1        | Not past due  | 1-29         | >30          | Total         | Stage 3      | Total              | Stage 1    | Not past due | 1-29       | >30        | Total        | Stage 3      | Total        |
| £m                               | £m             | £m            | £m           | £m           | £m            | £m           | £m                 | £m         | £m           | £m         | £m         | £m           | £m           | £m           |
| <b>30 June 2020</b>              |                |               |              |              |               |              |                    |            |              |            |            |              |              |              |
| <b>UK Personal Banking</b>       | <b>136,065</b> | <b>26,597</b> | <b>1,017</b> | <b>656</b>   | <b>28,270</b> | <b>2,052</b> | <b>166,387</b>     | <b>155</b> | <b>766</b>   | <b>61</b>  | <b>74</b>  | <b>901</b>   | <b>902</b>   | <b>1,958</b> |
| <b>Ulster Bank Rol</b>           | <b>18,642</b>  | <b>4,122</b>  | <b>150</b>   | <b>206</b>   | <b>4,478</b>  | <b>1,547</b> | <b>24,667</b>      | <b>42</b>  | <b>234</b>   | <b>12</b>  | <b>16</b>  | <b>262</b>   | <b>567</b>   | <b>871</b>   |
| <i>Personal (3)</i>              | <i>10,602</i>  | <i>2,015</i>  | <i>131</i>   | <i>133</i>   | <i>2,279</i>  | <i>1,384</i> | <i>14,265</i>      | <i>18</i>  | <i>82</i>    | <i>10</i>  | <i>13</i>  | <i>105</i>   | <i>467</i>   | <i>590</i>   |
| <i>Wholesale</i>                 | <i>8,040</i>   | <i>2,107</i>  | <i>19</i>    | <i>73</i>    | <i>2,199</i>  | <i>163</i>   | <i>10,402</i>      | <i>24</i>  | <i>152</i>   | <i>2</i>   | <i>3</i>   | <i>157</i>   | <i>100</i>   | <i>281</i>   |
| <b>Commercial Banking</b>        | <b>53,514</b>  | <b>55,593</b> | <b>1,934</b> | <b>847</b>   | <b>58,374</b> | <b>2,806</b> | <b>114,694</b>     | <b>217</b> | <b>1,614</b> | <b>72</b>  | <b>28</b>  | <b>1,714</b> | <b>1,184</b> | <b>3,115</b> |
| <b>Private Banking</b>           | <b>14,465</b>  | <b>1,545</b>  | <b>14</b>    | <b>8</b>     | <b>1,567</b>  | <b>256</b>   | <b>16,288</b>      | <b>21</b>  | <b>48</b>    | <b>-</b>   | <b>1</b>   | <b>49</b>    | <b>29</b>    | <b>99</b>    |
| <i>Personal</i>                  | <i>11,972</i>  | <i>168</i>    | <i>12</i>    | <i>7</i>     | <i>187</i>    | <i>243</i>   | <i>12,402</i>      | <i>4</i>   | <i>3</i>     | <i>-</i>   | <i>-</i>   | <i>3</i>     | <i>26</i>    | <i>33</i>    |
| <i>Wholesale</i>                 | <i>2,493</i>   | <i>1,377</i>  | <i>2</i>     | <i>1</i>     | <i>1,380</i>  | <i>13</i>    | <i>3,886</i>       | <i>17</i>  | <i>45</i>    | <i>-</i>   | <i>1</i>   | <i>46</i>    | <i>3</i>     | <i>66</i>    |
| <b>RBS International</b>         | <b>12,697</b>  | <b>1,792</b>  | <b>15</b>    | <b>18</b>    | <b>1,825</b>  | <b>195</b>   | <b>14,717</b>      | <b>9</b>   | <b>25</b>    | <b>-</b>   | <b>-</b>   | <b>25</b>    | <b>42</b>    | <b>76</b>    |
| <i>Personal</i>                  | <i>2,793</i>   | <i>18</i>     | <i>13</i>    | <i>11</i>    | <i>42</i>     | <i>68</i>    | <i>2,903</i>       | <i>1</i>   | <i>1</i>     | <i>-</i>   | <i>-</i>   | <i>1</i>     | <i>9</i>     | <i>11</i>    |
| <i>Wholesale</i>                 | <i>9,904</i>   | <i>1,774</i>  | <i>2</i>     | <i>7</i>     | <i>1,783</i>  | <i>127</i>   | <i>11,814</i>      | <i>8</i>   | <i>24</i>    | <i>-</i>   | <i>-</i>   | <i>24</i>    | <i>33</i>    | <i>65</i>    |
| <b>NatWest Markets</b>           | <b>10,197</b>  | <b>2,363</b>  | <b>-</b>     | <b>18</b>    | <b>2,381</b>  | <b>178</b>   | <b>12,756</b>      | <b>18</b>  | <b>53</b>    | <b>-</b>   | <b>-</b>   | <b>53</b>    | <b>136</b>   | <b>207</b>   |
| <b>Central items &amp; other</b> | <b>20,864</b>  | <b>115</b>    | <b>-</b>     | <b>-</b>     | <b>115</b>    | <b>-</b>     | <b>20,979</b>      | <b>7</b>   | <b>21</b>    | <b>-</b>   | <b>-</b>   | <b>21</b>    | <b>-</b>     | <b>28</b>    |
| <b>Total loans</b>               | <b>266,444</b> | <b>92,127</b> | <b>3,130</b> | <b>1,753</b> | <b>97,010</b> | <b>7,034</b> | <b>370,488</b>     | <b>469</b> | <b>2,761</b> | <b>145</b> | <b>119</b> | <b>3,025</b> | <b>2,860</b> | <b>6,354</b> |
| <i>Of which:</i>                 |                |               |              |              |               |              |                    |            |              |            |            |              |              |              |
| <i>Personal</i>                  | <i>161,432</i> | <i>28,798</i> | <i>1,173</i> | <i>807</i>   | <i>30,778</i> | <i>3,747</i> | <i>195,957</i>     | <i>178</i> | <i>852</i>   | <i>71</i>  | <i>87</i>  | <i>1,010</i> | <i>1,404</i> | <i>2,592</i> |
| <i>Wholesale</i>                 | <i>105,012</i> | <i>63,329</i> | <i>1,957</i> | <i>946</i>   | <i>66,232</i> | <i>3,287</i> | <i>174,531</i>     | <i>291</i> | <i>1,909</i> | <i>74</i>  | <i>32</i>  | <i>2,015</i> | <i>1,456</i> | <i>3,762</i> |
| <b>31 December 2019</b>          |                |               |              |              |               |              |                    |            |              |            |            |              |              |              |
| <b>UK Personal Banking</b>       | <b>144,513</b> | <b>11,921</b> | <b>1,034</b> | <b>603</b>   | <b>13,558</b> | <b>1,902</b> | <b>159,973</b>     | <b>114</b> | <b>375</b>   | <b>45</b>  | <b>47</b>  | <b>467</b>   | <b>823</b>   | <b>1,404</b> |
| <b>Ulster Bank Rol</b>           | <b>18,544</b>  | <b>1,405</b>  | <b>104</b>   | <b>133</b>   | <b>1,642</b>  | <b>2,037</b> | <b>22,223</b>      | <b>29</b>  | <b>39</b>    | <b>6</b>   | <b>8</b>   | <b>53</b>    | <b>693</b>   | <b>775</b>   |
| <i>Personal (3)</i>              | <i>10,858</i>  | <i>944</i>    | <i>96</i>    | <i>105</i>   | <i>1,145</i>  | <i>1,877</i> | <i>13,880</i>      | <i>12</i>  | <i>20</i>    | <i>6</i>   | <i>6</i>   | <i>32</i>    | <i>591</i>   | <i>635</i>   |
| <i>Wholesale</i>                 | <i>7,686</i>   | <i>461</i>    | <i>8</i>     | <i>28</i>    | <i>497</i>    | <i>160</i>   | <i>8,343</i>       | <i>17</i>  | <i>19</i>    | <i>-</i>   | <i>2</i>   | <i>21</i>    | <i>102</i>   | <i>140</i>   |
| <b>Commercial Banking</b>        | <b>88,100</b>  | <b>10,837</b> | <b>254</b>   | <b>262</b>   | <b>11,353</b> | <b>2,162</b> | <b>101,615</b>     | <b>152</b> | <b>195</b>   | <b>12</b>  | <b>7</b>   | <b>214</b>   | <b>1,021</b> | <b>1,387</b> |
| <b>Private Banking</b>           | <b>14,956</b>  | <b>478</b>    | <b>63</b>    | <b>46</b>    | <b>587</b>    | <b>207</b>   | <b>15,750</b>      | <b>7</b>   | <b>6</b>     | <b>-</b>   | <b>1</b>   | <b>7</b>     | <b>29</b>    | <b>43</b>    |
| <i>Personal</i>                  | <i>11,630</i>  | <i>180</i>    | <i>60</i>    | <i>41</i>    | <i>281</i>    | <i>192</i>   | <i>12,103</i>      | <i>3</i>   | <i>2</i>     | <i>-</i>   | <i>1</i>   | <i>3</i>     | <i>23</i>    | <i>29</i>    |
| <i>Wholesale</i>                 | <i>3,326</i>   | <i>298</i>    | <i>3</i>     | <i>5</i>     | <i>306</i>    | <i>15</i>    | <i>3,647</i>       | <i>4</i>   | <i>4</i>     | <i>-</i>   | <i>-</i>   | <i>4</i>     | <i>6</i>     | <i>14</i>    |
| <b>RBS International</b>         | <b>14,834</b>  | <b>520</b>    | <b>18</b>    | <b>7</b>     | <b>545</b>    | <b>121</b>   | <b>15,500</b>      | <b>4</b>   | <b>6</b>     | <b>-</b>   | <b>-</b>   | <b>6</b>     | <b>21</b>    | <b>31</b>    |
| <i>Personal</i>                  | <i>2,799</i>   | <i>27</i>     | <i>17</i>    | <i>6</i>     | <i>50</i>     | <i>65</i>    | <i>2,914</i>       | <i>1</i>   | <i>1</i>     | <i>-</i>   | <i>-</i>   | <i>1</i>     | <i>12</i>    | <i>14</i>    |
| <i>Wholesale</i>                 | <i>12,035</i>  | <i>493</i>    | <i>1</i>     | <i>1</i>     | <i>495</i>    | <i>56</i>    | <i>12,586</i>      | <i>3</i>   | <i>5</i>     | <i>-</i>   | <i>-</i>   | <i>5</i>     | <i>9</i>     | <i>17</i>    |
| <b>NatWest Markets</b>           | <b>9,273</b>   | <b>176</b>    | <b>4</b>     | <b>-</b>     | <b>180</b>    | <b>169</b>   | <b>9,622</b>       | <b>10</b>  | <b>5</b>     | <b>-</b>   | <b>-</b>   | <b>5</b>     | <b>131</b>   | <b>146</b>   |
| <b>Central items &amp; other</b> | <b>15,282</b>  | <b>3</b>      | <b>-</b>     | <b>-</b>     | <b>3</b>      | <b>-</b>     | <b>15,285</b>      | <b>6</b>   | <b>-</b>     | <b>-</b>   | <b>-</b>   | <b>-</b>     | <b>-</b>     | <b>6</b>     |
| <b>Total loans</b>               | <b>305,502</b> | <b>25,340</b> | <b>1,477</b> | <b>1,051</b> | <b>27,868</b> | <b>6,598</b> | <b>339,968</b>     | <b>322</b> | <b>626</b>   | <b>63</b>  | <b>63</b>  | <b>752</b>   | <b>2,718</b> | <b>3,792</b> |
| <i>Of which:</i>                 |                |               |              |              |               |              |                    |            |              |            |            |              |              |              |
| <i>Personal</i>                  | <i>169,800</i> | <i>13,072</i> | <i>1,207</i> | <i>755</i>   | <i>15,034</i> | <i>4,036</i> | <i>188,870</i>     | <i>130</i> | <i>398</i>   | <i>51</i>  | <i>54</i>  | <i>503</i>   | <i>1,449</i> | <i>2,082</i> |
| <i>Wholesale</i>                 | <i>135,702</i> | <i>12,268</i> | <i>270</i>   | <i>296</i>   | <i>12,834</i> | <i>2,562</i> | <i>151,098</i>     | <i>192</i> | <i>228</i>   | <i>12</i>  | <i>9</i>   | <i>249</i>   | <i>1,269</i> | <i>1,710</i> |

For the notes to this table refer to the following page.

## Capital and risk management

### Credit risk – Banking activities continued

#### Segmental loans and impairment metrics

The table below shows ECL and ECL provisions coverage, by days past due, by segment and stage, within the scope of the ECL framework.

|                         | ECL provision coverage |              |          |         |       |         | Half year ended 30 June |              |           |                           |
|-------------------------|------------------------|--------------|----------|---------|-------|---------|-------------------------|--------------|-----------|---------------------------|
|                         | Stage 2 (1,2)          |              |          |         |       | Stage 3 | ECL                     |              |           | Amounts written-off<br>£m |
|                         | Stage 1                | Not past due | 1-29 DPD | >30 DPD | Total |         | Total                   | Total charge | Loss rate |                           |
| %                       | %                      | %            | %        | %       | %     | £m      | basis points            | £m           |           |                           |
| <b>30 June 2020</b>     |                        |              |          |         |       |         |                         |              |           |                           |
| UK Personal Banking     | 0.11                   | 2.88         | 6.00     | 11.28   | 3.19  | 43.96   | 1.18                    | 657          | 78.97     | 117                       |
| Ulster Bank Rol         | 0.23                   | 5.68         | 8.00     | 7.77    | 5.85  | 36.65   | 3.53                    | 243          | 197.02    | 164                       |
| Personal (3)            | 0.17                   | 4.07         | 7.63     | 9.77    | 4.61  | 33.74   | 4.14                    | 120          | 168.24    | 162                       |
| Wholesale               | 0.30                   | 7.21         | 10.53    | 4.11    | 7.14  | 61.35   | 2.70                    | 123          | 236.49    | 2                         |
| Commercial Banking      | 0.41                   | 2.90         | 3.72     | 3.31    | 2.94  | 42.20   | 2.72                    | 1,790        | 312.13    | 120                       |
| Private Banking         | 0.15                   | 3.11         | -        | 12.50   | 3.13  | 11.33   | 0.61                    | 56           | 68.76     | 1                         |
| Personal                | 0.03                   | 1.79         | -        | -       | 1.60  | 10.70   | 0.27                    | 3            | 4.84      | -                         |
| Wholesale               | 0.68                   | 3.27         | -        | 100.00  | 3.33  | 23.08   | 1.70                    | 53           | 272.77    | 1                         |
| RBS International       | 0.07                   | 1.40         | -        | -       | 1.37  | 21.54   | 0.52                    | 46           | 62.51     | 2                         |
| Personal                | 0.04                   | 5.56         | -        | -       | 2.38  | 13.24   | 0.38                    | (3)          | (20.67)   | 2                         |
| Wholesale               | 0.08                   | 1.35         | -        | -       | 1.35  | 25.98   | 0.55                    | 49           | 82.95     | -                         |
| NatWest Markets         | 0.18                   | 2.24         | -        | -       | 2.23  | 76.40   | 1.62                    | 40           | 62.72     | 4                         |
| Central items & other   | 0.03                   | 18.26        | -        | -       | 18.26 | -       | 0.13                    | 26           | 24.79     | -                         |
| Total loans             | 0.18                   | 3.00         | 4.63     | 6.79    | 3.12  | 40.66   | 1.72                    | 2,858        | 154.28    | 408                       |
| Of which:               |                        |              |          |         |       |         |                         |              |           |                           |
| Personal                | 0.11                   | 2.96         | 6.05     | 10.78   | 3.28  | 37.47   | 1.32                    | 777          | 79.30     | 281                       |
| Wholesale               | 0.28                   | 3.01         | 3.78     | 3.38    | 3.04  | 44.30   | 2.16                    | 2,081        | 238.47    | 127                       |
| <b>31 December 2019</b> |                        |              |          |         |       |         |                         |              |           |                           |
| UK Personal Banking     | 0.08                   | 3.15         | 4.35     | 7.79    | 3.44  | 43.27   | 0.88                    | 181          | 23.70     | 90                        |
| Ulster Bank Rol         | 0.16                   | 2.78         | 5.77     | 6.02    | 3.23  | 34.02   | 3.49                    | (21)         | (17.88)   | 72                        |
| Personal (3)            | 0.11                   | 2.12         | 6.25     | 5.71    | 2.79  | 31.49   | 4.57                    | (10)         | (13.87)   | 64                        |
| Wholesale               | 0.22                   | 4.12         | -        | 7.14    | 4.23  | 63.75   | 1.68                    | (11)         | (24.26)   | 8                         |
| Commercial Banking      | 0.17                   | 1.80         | 4.72     | 2.67    | 1.88  | 47.22   | 1.36                    | 202          | 39.66     | 276                       |
| Private Banking         | 0.05                   | 1.26         | -        | 2.17    | 1.19  | 14.01   | 0.27                    | (3)          | (4.03)    | 1                         |
| Personal                | 0.03                   | 1.11         | -        | 2.44    | 1.07  | 11.98   | 0.24                    | (3)          | (5.11)    | 1                         |
| Wholesale               | 0.12                   | 1.34         | -        | -       | 1.31  | 40.00   | 0.38                    | -            | -         | -                         |
| RBS International       | 0.03                   | 1.15         | -        | -       | 1.10  | 17.36   | 0.20                    | (3)          | (3.86)    | 2                         |
| Personal                | 0.04                   | 3.70         | -        | -       | 2.00  | 18.46   | 0.48                    | (1)          | (7.30)    | 2                         |
| Wholesale               | 0.02                   | 1.01         | -        | -       | 1.01  | 16.07   | 0.14                    | (2)          | (3.13)    | -                         |
| NatWest Markets         | 0.11                   | 2.84         | -        | -       | 2.78  | 77.51   | 1.52                    | (36)         | (68.68)   | 11                        |
| Central items & other   | 0.04                   | -            | -        | -       | -     | -       | 0.04                    | 3            | 9.98      | -                         |
| Total loans             | 0.11                   | 2.47         | 4.27     | 5.99    | 2.70  | 41.19   | 1.12                    | 323          | 19.88     | 452                       |
| Of which:               |                        |              |          |         |       |         |                         |              |           |                           |
| Personal                | 0.08                   | 3.04         | 4.23     | 7.15    | 3.35  | 35.90   | 1.10                    | 167          | 18.39     | 157                       |
| Wholesale               | 0.14                   | 1.86         | 4.44     | 3.04    | 1.94  | 49.53   | 1.13                    | 156          | 21.76     | 295                       |

#### Notes:

(1) 30 DPD – 30 days past due, the mandatory 30 days past due backstop is prescribed by IFRS 9 for a SICR.

(2) ECL provisions on contingent liabilities and commitments are included within the Financial assets section so as not to distort ECL coverage ratios.

(3) Includes a £7 million charge and a £1 million write-off (31 December 2019 – £5 million release and £3 million write-off) related to the business banking portfolio in Ulster Bank Rol.

## Capital and risk management

### Credit risk – Banking activities continued

#### Segmental loans and impairment metrics

##### Key points

- **Personal Banking** – Balance sheet growth since the 2019 year-end was driven by mortgages, primarily pre-Covid-19, in the first quarter of the year. Unsecured lending balances reduced in the second quarter as customer spend and demand for borrowing reduced whilst in lockdown and customers have made repayments. The deteriorated economic outlook, as detailed in the Covid-19 – estimating ECL in uncertain times section, including forecast increases in unemployment, resulted in increased account level IFRS 9 PDs. Consequently, compared to the 2019 year-end, a larger proportion of customer accounts exhibited a SICR with an associated migration of assets from Stage 1 to Stage 2. As a result, the ECL requirement increased. Additionally, forecast declines in house prices increased the ECL requirement on the mortgage portfolio. The various Covid-19 related customer support mechanisms (loan repayment holidays, government job retention scheme) are mitigating actual portfolio deterioration in the short term, with the days past due, and flows to Stage 3 metrics, yet to be materially impacted. Provisions coverage increased overall but coverage on Stage 2 alone has reduced driven by a proportionately higher share of mortgage exposures where coverage levels are lower, reflecting the secured nature of the borrowing. The annualised loss rate for H1 2020 was significantly higher than in 2019.
- **Commercial Banking** – Balance sheet growth since the 2019 year-end was mainly due to further drawdowns on existing facilities and new lending under the Covid-19 government lending schemes. The deteriorated economic outlook, as detailed in the Covid-19 – estimating ECL in uncertain times section, including significant falls in GDP and commercial real estate valuations, resulted in increased IFRS 9 PDs. Consequently, compared to the 2019 year-end, a larger proportion of the exposures exhibited a SICR with an associated migration of assets from Stage 1 to Stage 2. As a result, the ECL requirement increased. The increase in Stage 2 assets due to PD deterioration was also the primary driver for the increase in the Stage 2 exposures less than 30 days past due. The various Covid-19 related customer support mechanisms are providing some mitigation against flows in to defaults in the short-term. Increased coverage in Stage 1 and Stage 2 was driven by the increased ECL, mainly as a result of the deteriorated economic outlook, which was partially offset by a slight decrease in Stage 3 coverage. The annualised loss rate for H1 2020 was significantly higher than in 2019.
- **Ulster Bank Rol** – Balance sheet growth since the 2019 year-end was mainly due to further drawdowns on existing facilities and new lending across both the commercial and personal banking portfolios, offset by ongoing deleveraging of the Ulster Bank Rol mortgage non-performing portfolio through the execution of two tranches of a portfolio sale. The deteriorated economic outlook, as detailed in the Covid-19 – estimating ECL in uncertain times section, included forecast increases in unemployment, falls in property prices and GDP, which resulted in increased IFRS 9 PDs across all portfolios. Consequently, compared to the 2019 year-end, a larger proportion of the exposures exhibited a SICR with an associated migration of assets from Stage 1 to Stage 2. As a result, the ECL requirement increased. The various Covid-19 related customer support mechanisms (loan repayment breaks, government job retention scheme) provided by Ulster Bank Rol are mitigating actual portfolio deterioration in the short-term, with the days past due, and flows to Stage 3 metrics, yet to be materially impacted. The annualised loss rate for H1 2020 was significantly higher than in 2019.

## Capital and risk management

### Credit risk – Banking activities continued

#### Portfolio summary – sector analysis

The table below shows financial assets and off-balance sheet exposures gross of ECL and related ECL provisions, impairment and past due by sector, asset quality and geographical region based on the country of operation of the customer.

|  | Personal           |                       |                         |                | Wholesale      |                 |               |                 | Total          |                |
|--|--------------------|-----------------------|-------------------------|----------------|----------------|-----------------|---------------|-----------------|----------------|----------------|
|  | Mortgages(1)<br>£m | Credit<br>cards<br>£m | Other<br>personal<br>£m | Total<br>£m    | Property<br>£m | Corporate<br>£m | FI<br>£m      | Sovereign<br>£m | Total<br>£m    | £m             |
| <b>30 June 2020</b>                    |                    |                       |                         |                |                |                 |               |                 |                |                |
| <b>Loans by geography</b>              | <b>182,142</b>     | <b>3,818</b>          | <b>9,997</b>            | <b>195,957</b> | <b>40,441</b>  | <b>81,715</b>   | <b>42,932</b> | <b>9,443</b>    | <b>174,531</b> | <b>370,488</b> |
| - UK                                   | 168,163            | 3,743                 | 9,786                   | 181,692        | 37,546         | 66,125          | 29,575        | 3,566           | 136,812        | 318,504        |
| - RoI                                  | 13,979             | 75                    | 211                     | 14,265         | 1,375          | 4,312           | 288           | 4,994           | 10,969         | 25,234         |
| - Other Europe                         | -                  | -                     | -                       | -              | 829            | 5,706           | 4,260         | 382             | 11,177         | 11,177         |
| - RoW                                  | -                  | -                     | -                       | -              | 691            | 5,572           | 8,809         | 501             | 15,573         | 15,573         |
| <b>Loans by asset quality (2)</b>      | <b>182,142</b>     | <b>3,818</b>          | <b>9,997</b>            | <b>195,957</b> | <b>40,441</b>  | <b>81,715</b>   | <b>42,932</b> | <b>9,443</b>    | <b>174,531</b> | <b>370,488</b> |
| - AQ1                                  | 2,552              | -                     | 554                     | 3,106          | 4,602          | 1,919           | 23,299        | 2,054           | 31,874         | 34,980         |
| - AQ2                                  | 4,496              | -                     | -                       | 4,496          | 2,324          | 647             | 1,954         | 1,824           | 6,749          | 11,245         |
| - AQ3                                  | 276                | -                     | -                       | 276            | 2,924          | 6,502           | 1,644         | 5,300           | 16,370         | 16,646         |
| - AQ4                                  | 98,997             | 42                    | 377                     | 99,416         | 7,268          | 15,830          | 9,977         | 96              | 33,171         | 132,587        |
| - AQ5                                  | 59,995             | 907                   | 1,405                   | 62,307         | 10,048         | 20,605          | 1,798         | 106             | 32,557         | 94,864         |
| - AQ6                                  | 4,066              | 994                   | 3,969                   | 9,029          | 6,539          | 14,905          | 706           | 3               | 22,153         | 31,182         |
| - AQ7                                  | 5,627              | 1,374                 | 1,697                   | 8,698          | 3,596          | 12,018          | 3,258         | 44              | 18,916         | 27,614         |
| - AQ8                                  | 1,610              | 335                   | 868                     | 2,813          | 1,086          | 4,566           | 268           | 5               | 5,925          | 8,738          |
| - AQ9                                  | 1,620              | 56                    | 393                     | 2,069          | 795            | 2,711           | 18            | 5               | 3,529          | 5,598          |
| - AQ10                                 | 2,903              | 110                   | 734                     | 3,747          | 1,259          | 2,012           | 10            | 6               | 3,287          | 7,034          |
| <b>Loans by stage</b>                  | <b>182,142</b>     | <b>3,818</b>          | <b>9,997</b>            | <b>195,957</b> | <b>40,441</b>  | <b>81,715</b>   | <b>42,932</b> | <b>9,443</b>    | <b>174,531</b> | <b>370,488</b> |
| - Stage 1                              | 152,947            | 2,387                 | 6,098                   | 161,432        | 26,782         | 29,661          | 39,133        | 9,436           | 105,012        | 266,444        |
| - Stage 2                              | 26,292             | 1,321                 | 3,165                   | 30,778         | 12,400         | 50,042          | 3,789         | 1               | 66,232         | 97,010         |
| - Stage 3                              | 2,903              | 110                   | 734                     | 3,747          | 1,259          | 2,012           | 10            | 6               | 3,287          | 7,034          |
| - Of which: individual                 | 290                | -                     | 21                      | 311            | 860            | 1,196           | 2             | 3               | 2,061          | 2,372          |
| - Of which: collective                 | 2,613              | 110                   | 713                     | 3,436          | 399            | 816             | 8             | 3               | 1,226          | 4,662          |
| <b>Loans - past due analysis (3,4)</b> | <b>182,142</b>     | <b>3,818</b>          | <b>9,997</b>            | <b>195,957</b> | <b>40,441</b>  | <b>81,715</b>   | <b>42,932</b> | <b>9,443</b>    | <b>174,531</b> | <b>370,488</b> |
| - Not past due                         | 177,991            | 3,663                 | 8,989                   | 190,643        | 38,890         | 78,439          | 42,651        | 8,476           | 168,456        | 359,099        |
| - Past due 1-29 days                   | 1,495              | 25                    | 155                     | 1,675          | 604            | 1,964           | 200           | 967             | 3,735          | 5,410          |
| - Past due 30-89 days                  | 954                | 46                    | 132                     | 1,132          | 435            | 599             | 75            | -               | 1,109          | 2,241          |
| - Past due 90-180 days                 | 494                | 30                    | 84                      | 608            | 29             | 88              | -             | -               | 117            | 725            |
| - Past due >180 days                   | 1,208              | 54                    | 637                     | 1,899          | 483            | 625             | 6             | -               | 1,114          | 3,013          |
| <b>Loans - Stage 2</b>                 | <b>26,292</b>      | <b>1,321</b>          | <b>3,165</b>            | <b>30,778</b>  | <b>12,400</b>  | <b>50,042</b>   | <b>3,789</b>  | <b>1</b>        | <b>66,232</b>  | <b>97,010</b>  |
| - Not past due                         | 24,624             | 1,267                 | 2,907                   | 28,798         | 11,636         | 47,992          | 3,700         | 1               | 63,329         | 92,127         |
| - Past due 1-29 days                   | 1,020              | 17                    | 136                     | 1,173          | 395            | 1,548           | 14            | -               | 1,957          | 3,130          |
| - Past due 30-89 days                  | 648                | 37                    | 122                     | 807            | 369            | 502             | 75            | -               | 946            | 1,753          |
| <b>Weighted average life*</b>          |                    |                       |                         |                |                |                 |               |                 |                |                |
| - ECL measurement (years)              | 9                  | 3                     | 5                       | 6              | 4              | 5               | 4             | -               | 5              | 5              |
| <b>Weighted average 12 months PDs*</b> |                    |                       |                         |                |                |                 |               |                 |                |                |
| - IFRS 9 (%)                           | 0.71               | 4.14                  | 4.88                    | 0.98           | 3.78           | 4.07            | 0.52          | 0.06            | 2.74           | 1.69           |
| - Basel (%)                            | 0.89               | 3.75                  | 4.14                    | 1.10           | 1.61           | 2.52            | 0.29          | 0.09            | 1.55           | 1.30           |
| <b>ECL provisions by geography</b>     | <b>1,032</b>       | <b>376</b>            | <b>1,184</b>            | <b>2,592</b>   | <b>1,031</b>   | <b>2,625</b>    | <b>96</b>     | <b>10</b>       | <b>3,762</b>   | <b>6,354</b>   |
| - UK                                   | 461                | 373                   | 1,168                   | 2,002          | 895            | 2,010           | 37            | 7               | 2,949          | 4,951          |
| - RoI                                  | 571                | 3                     | 16                      | 590            | 82             | 219             | 3             | 1               | 305            | 895            |
| - Other Europe                         | -                  | -                     | -                       | -              | 47             | 182             | 42            | 1               | 272            | 272            |
| - RoW                                  | -                  | -                     | -                       | -              | 7              | 214             | 14            | 1               | 236            | 236            |
| <b>ECL provisions by stage</b>         | <b>1,032</b>       | <b>376</b>            | <b>1,184</b>            | <b>2,592</b>   | <b>1,031</b>   | <b>2,625</b>    | <b>96</b>     | <b>10</b>       | <b>3,762</b>   | <b>6,354</b>   |
| - Stage 1                              | 34                 | 47                    | 97                      | 178            | 126            | 133             | 22            | 10              | 291            | 469            |
| - Stage 2                              | 292                | 243                   | 475                     | 1,010          | 392            | 1,554           | 69            | -               | 2,015          | 3,025          |
| - Stage 3                              | 706                | 86                    | 612                     | 1,404          | 513            | 938             | 5             | -               | 1,456          | 2,860          |
| - Of which: individual                 | 20                 | -                     | 15                      | 35             | 305            | 565             | -             | -               | 870            | 905            |
| - Of which: collective                 | 686                | 86                    | 597                     | 1,369          | 208            | 373             | 5             | -               | 586            | 1,955          |
| <b>ECL provisions coverage (%)</b>     | <b>0.57</b>        | <b>9.85</b>           | <b>11.84</b>            | <b>1.32</b>    | <b>2.55</b>    | <b>3.21</b>     | <b>0.22</b>   | <b>0.11</b>     | <b>2.16</b>    | <b>1.72</b>    |
| - Stage 1 (%)                          | 0.02               | 1.97                  | 1.59                    | 0.11           | 0.47           | 0.45            | 0.06          | 0.11            | 0.28           | 0.18           |
| - Stage 2 (%)                          | 1.11               | 18.40                 | 15.01                   | 3.28           | 3.16           | 3.11            | 1.82          | -               | 3.04           | 3.12           |
| - Stage 3 (%)                          | 24.32              | 78.18                 | 83.38                   | 37.47          | 40.75          | 46.62           | 50.00         | -               | 44.30          | 40.66          |
| <b>ECL charge</b>                      | <b>243</b>         | <b>164</b>            | <b>370</b>              | <b>777</b>     | <b>568</b>     | <b>1,439</b>    | <b>73</b>     | <b>1</b>        | <b>2,081</b>   | <b>2,858</b>   |
| - UK                                   | 136                | 163                   | 358                     | 657            | 501            | 1,238           | 26            | 1               | 1,766          | 2,423          |
| - RoI                                  | 107                | 1                     | 12                      | 120            | 47             | 77              | 1             | -               | 125            | 245            |
| - Other Europe                         | -                  | -                     | -                       | -              | 16             | 50              | 36            | -               | 102            | 102            |
| - RoW                                  | -                  | -                     | -                       | -              | 4              | 74              | 10            | -               | 88             | 88             |
| <b>ECL loss rate (%)</b>               | <b>0.27</b>        | <b>8.59</b>           | <b>7.40</b>             | <b>0.79</b>    | <b>2.81</b>    | <b>3.52</b>     | <b>0.34</b>   | <b>0.02</b>     | <b>2.38</b>    | <b>1.54</b>    |
| Amounts written-off                    | 169                | 49                    | 63                      | 281            | 21             | 104             | 2             | -               | 127            | 408            |

\*Not within the scope of EY's review report.

For the notes to this table refer to page 45.

Capital and risk management  
 Credit risk – Banking activities continued  
 Portfolio summary – sector analysis

|  | Personal           |                       |                         |             | Wholesale      |                 |          |                 | Total       |         |
|--|--------------------|-----------------------|-------------------------|-------------|----------------|-----------------|----------|-----------------|-------------|---------|
|  | Mortgages(1)<br>£m | Credit<br>cards<br>£m | Other<br>personal<br>£m | Total<br>£m | Property<br>£m | Corporate<br>£m | FI<br>£m | Sovereign<br>£m | Total<br>£m | £m      |
| <b>30 June 2020</b>                            |                    |                       |                         |             |                |                 |          |                 |             |         |
| Loans by residual maturity                     | 182,142            | 3,818                 | 9,997                   | 195,957     | 40,441         | 81,715          | 42,932   | 9,443           | 174,531     | 370,488 |
| - <1 year                                      | 3,820              | 2,357                 | 3,129                   | 9,306       | 8,930          | 25,187          | 33,226   | 7,322           | 74,665      | 83,971  |
| - 1-5 year                                     | 9,103              | 1,461                 | 5,724                   | 16,288      | 21,932         | 39,324          | 8,790    | 1,317           | 71,363      | 87,651  |
| - 5 year                                       | 169,219            | -                     | 1,144                   | 170,363     | 9,579          | 17,204          | 916      | 804             | 28,503      | 198,866 |
| Other financial assets by asset<br>quality (2) | -                  | -                     | -                       | -           | 37             | 129             | 13,213   | 146,272         | 159,651     | 159,651 |
| - AQ1-AQ4                                      | -                  | -                     | -                       | -           | -              | 128             | 12,734   | 146,236         | 159,098     | 159,098 |
| - AQ5-AQ8                                      | -                  | -                     | -                       | -           | 37             | 1               | 479      | 36              | 553         | 553     |
| Off-balance sheet                              | 11,161             | 17,481                | 12,685                  | 41,327      | 16,030         | 58,398          | 18,630   | 1,131           | 94,189      | 135,516 |
| - Loan commitments                             | 11,158             | 17,481                | 12,640                  | 41,279      | 15,423         | 55,099          | 17,500   | 1,129           | 89,151      | 130,430 |
| - Financial guarantees                         | 3                  | -                     | 45                      | 48          | 607            | 3,299           | 1,130    | 2               | 5,038       | 5,086   |
| Off-balance sheet by asset<br>quality (2)      | 11,161             | 17,481                | 12,685                  | 41,327      | 16,030         | 58,398          | 18,630   | 1,131           | 94,189      | 135,516 |
| - AQ1-AQ4                                      | 10,537             | 278                   | 10,362                  | 21,177      | 11,837         | 35,657          | 17,083   | 1,092           | 65,669      | 86,846  |
| - AQ5-AQ8                                      | 614                | 16,910                | 2,307                   | 19,831      | 4,116          | 22,210          | 1,543    | 39              | 27,908      | 47,739  |
| - AQ9  | 1                  | 9                     | 16                      | 26          | 12             | 46              | -        | -               | 58          | 84      |
| - AQ10   | 9                  | 284                   | -                       | 293         | 65             | 485             | 4        | -               | 554         | 847     |

For the notes to this table refer to page 45.

**Capital and risk management**  
**Credit risk – Banking activities continued**  
**Portfolio summary – sector analysis**

|  | Personal           |                       |                         |             | Wholesale      |                 |          |                 | Total       |         |
|--|--------------------|-----------------------|-------------------------|-------------|----------------|-----------------|----------|-----------------|-------------|---------|
|  | Mortgages(1)<br>£m | Credit<br>cards<br>£m | Other<br>personal<br>£m | Total<br>£m | Property<br>£m | Corporate<br>£m | FI<br>£m | Sovereign<br>£m | Total<br>£m | £m      |
| 31 December 2019                       |                    |                       |                         |             |                |                 |          |                 |             |         |
| <b>Loans by geography</b>              | 174,003            | 4,478                 | 10,389                  | 188,870     | 36,371         | 71,042          | 36,266   | 7,419           | 151,098     | 339,968 |
| - UK                                   | 160,431            | 4,383                 | 10,176                  | 174,990     | 33,644         | 58,666          | 22,564   | 3,479           | 118,353     | 293,343 |
| - RoI                                  | 13,572             | 95                    | 213                     | 13,880      | 1,310          | 4,169           | 513      | 3,167           | 9,159       | 23,039  |
| - Other Europe                         | -                  | -                     | -                       | -           | 921            | 4,350           | 5,120    | 328             | 10,719      | 10,719  |
| - RoW                                  | -                  | -                     | -                       | -           | 496            | 3,857           | 8,069    | 445             | 12,867      | 12,867  |
| <b>Loans by asset quality (2)</b>      | 174,003            | 4,478                 | 10,389                  | 188,870     | 36,371         | 71,042          | 36,266   | 7,419           | 151,098     | 339,968 |
| - AQ1                                  | 3,837              | -                     | 665                     | 4,502       | 4,474          | 2,272           | 17,841   | 1,931           | 26,518      | 31,020  |
| - AQ2                                  | 2,866              | -                     | -                       | 2,866       | 2,490          | 496             | 1,763    | 1,780           | 6,529       | 9,395   |
| - AQ3                                  | 277                | -                     | -                       | 277         | 2,465          | 5,561           | 2,939    | 3,520           | 14,485      | 14,762  |
| - AQ4                                  | 92,520             | 375                   | 625                     | 93,520      | 6,574          | 14,660          | 9,979    | 41              | 31,254      | 124,774 |
| - AQ5                                  | 58,051             | 786                   | 1,708                   | 60,545      | 10,419         | 19,584          | 2,027    | 107             | 32,137      | 92,682  |
| - AQ6                                  | 5,253              | 1,211                 | 3,344                   | 9,808       | 5,809          | 13,470          | 811      | 3               | 20,093      | 29,901  |
| - AQ7                                  | 5,326              | 1,531                 | 2,328                   | 9,185       | 2,853          | 11,404          | 867      | 30              | 15,154      | 24,339  |
| - AQ8                                  | 1,379              | 393                   | 792                     | 2,564       | 302            | 1,478           | 20       | 2               | 1,802       | 4,366   |
| - AQ9                                  | 1,217              | 66                    | 284                     | 1,567       | 90             | 468             | 6        | -               | 564         | 2,131   |
| - AQ10                                 | 3,277              | 116                   | 643                     | 4,036       | 895            | 1,649           | 13       | 5               | 2,562       | 6,598   |
| <b>Loans by stage</b>                  | 174,003            | 4,478                 | 10,389                  | 188,870     | 36,371         | 71,042          | 36,266   | 7,419           | 151,098     | 339,968 |
| - Stage 1                              | 159,261            | 3,103                 | 7,436                   | 169,800     | 32,896         | 59,689          | 35,707   | 7,410           | 135,702     | 305,502 |
| - Stage 2                              | 11,465             | 1,259                 | 2,310                   | 15,034      | 2,580          | 9,704           | 546      | 4               | 12,834      | 27,868  |
| - Stage 3                              | 3,277              | 116                   | 643                     | 4,036       | 895            | 1,649           | 13       | 5               | 2,562       | 6,598   |
| - Of which: individual                 | 235                | -                     | 21                      | 256         | 646            | 1,137           | 7        | 5               | 1,795       | 2,051   |
| - Of which: collective                 | 3,042              | 116                   | 622                     | 3,780       | 249            | 512             | 6        | -               | 767         | 4,547   |
| <b>Loans - past due analysis (3,4)</b> | 174,003            | 4,478                 | 10,389                  | 188,870     | 36,371         | 71,042          | 36,266   | 7,419           | 151,098     | 339,968 |
| - Not past due                         | 169,536            | 4,313                 | 9,473                   | 183,322     | 35,445         | 68,730          | 36,214   | 7,365           | 147,754     | 331,076 |
| - Past due 1-29 days                   | 1,578              | 43                    | 164                     | 1,785       | 317            | 1,339           | 36       | 54              | 1,746       | 3,531   |
| - Past due 30-89 days                  | 955                | 36                    | 123                     | 1,114       | 82             | 271             | 7        | -               | 360         | 1,474   |
| - Past due 90-180 days                 | 495                | 30                    | 84                      | 609         | 26             | 148             | -        | -               | 174         | 783     |
| - Past due >180 days                   | 1,439              | 56                    | 545                     | 2,040       | 501            | 554             | 9        | -               | 1,064       | 3,104   |
| <b>Loans - Stage 2</b>                 | 11,465             | 1,259                 | 2,310                   | 15,034      | 2,580          | 9,704           | 546      | 4               | 12,834      | 27,868  |
| - Not past due                         | 9,798              | 1,204                 | 2,070                   | 13,072      | 2,466          | 9,266           | 534      | 4               | 12,270      | 25,342  |
| - Past due 1-29 days                   | 1,050              | 29                    | 128                     | 1,207       | 49             | 214             | 5        | -               | 268         | 1,475   |
| - Past due 30-89 days                  | 617                | 26                    | 112                     | 755         | 65             | 224             | 7        | -               | 296         | 1,051   |
| <b>Weighted average life*</b>          |                    |                       |                         |             |                |                 |          |                 |             |         |
| - ECL measurement (years)              | 9                  | 2                     | 6                       | 5           | 6              | 6               | 3        | 1               | 6           | 6       |
| <b>Weighted average 12 months PDs*</b> |                    |                       |                         |             |                |                 |          |                 |             |         |
| - IFRS 9 (%)                           | 0.31               | 3.86                  | 2.98                    | 0.54        | 0.63           | 0.98            | 0.13     | 0.05            | 0.60        | 0.54    |
| - Basel (%)                            | 0.81               | 3.59                  | 3.75                    | 1.03        | 0.96           | 1.25            | 0.20     | 0.07            | 0.83        | 0.92    |
| <b>ECL provisions by geography</b>     | 964                | 261                   | 857                     | 2,082       | 494            | 1,181           | 28       | 7               | 1,710       | 3,792   |
| - UK                                   | 342                | 259                   | 846                     | 1,447       | 424            | 800             | 14       | 4               | 1,242       | 2,689   |
| - RoI                                  | 622                | 2                     | 11                      | 635         | 39             | 117             | 3        | 1               | 160         | 795     |
| - Other Europe                         | -                  | -                     | -                       | -           | 28             | 130             | 9        | 1               | 168         | 168     |
| - RoW                                  | -                  | -                     | -                       | -           | 3              | 134             | 2        | 1               | 140         | 140     |
| <b>ECL provisions by stage</b>         | 964                | 261                   | 857                     | 2,082       | 494            | 1,181           | 28       | 7               | 1,710       | 3,792   |
| - Stage 1                              | 25                 | 40                    | 65                      | 130         | 45             | 124             | 16       | 7               | 192         | 322     |
| - Stage 2                              | 118                | 132                   | 253                     | 503         | 47             | 198             | 4        | -               | 249         | 752     |
| - Stage 3                              | 821                | 89                    | 539                     | 1,449       | 402            | 859             | 8        | -               | 1,269       | 2,718   |
| - Of which: individual                 | 24                 | -                     | 11                      | 35          | 236            | 521             | 4        | -               | 761         | 796     |
| - Of which: collective                 | 797                | 89                    | 528                     | 1,414       | 166            | 338             | 4        | -               | 508         | 1,922   |
| <b>ECL provisions coverage (%)</b>     | 0.55               | 5.83                  | 8.25                    | 1.10        | 1.36           | 1.66            | 0.08     | 0.09            | 1.13        | 1.12    |
| - Stage 1 (%)                          | 0.02               | 1.29                  | 0.87                    | 0.08        | 0.14           | 0.21            | 0.04     | 0.09            | 0.14        | 0.11    |
| - Stage 2 (%)                          | 1.03               | 10.48                 | 10.95                   | 3.35        | 1.82           | 2.04            | 0.73     | -               | 1.94        | 2.70    |
| - Stage 3 (%)                          | 25.05              | 76.72                 | 83.83                   | 35.90       | 44.92          | 52.09           | 61.54    | -               | 49.53       | 41.19   |
| Half year ended 30 June 2019           |                    |                       |                         |             |                |                 |          |                 |             |         |
| <b>ECL charge</b>                      | 3                  | 26                    | 138                     | 167         | 22             | 134             | (2)      | 2               | 156         | 323     |
| - UK                                   | 15                 | 26                    | 136                     | 177         | 22             | 165             | (1)      | 1               | 187         | 364     |
| - RoI                                  | (12)               | -                     | 2                       | (10)        | -              | (11)            | -        | -               | (11)        | (21)    |
| - Other Europe                         | -                  | -                     | -                       | -           | -              | (25)            | (1)      | -               | (26)        | (26)    |
| - RoW                                  | -                  | -                     | -                       | -           | -              | 5               | -        | 1               | 6           | 6       |
| <b>ECL loss rate (%)</b>               | -                  | 1.24                  | 2.78                    | 0.18        | 0.12           | 0.37            | (0.01)   | 0.05            | 0.22        | 0.20    |
| Amounts written-off                    | 71                 | 35                    | 51                      | 157         | 173            | 112             | 10       | -               | 295         | 452     |

\*Not within the scope of EY's review report.

For the notes to this table refer to the following page.

**Capital and risk management**  
**Credit risk – Banking activities continued**  
**Portfolio summary – sector analysis**

|  | Personal           |                       |                         |             | Wholesale      |                 |          |                 | Total       |         |
|--|--------------------|-----------------------|-------------------------|-------------|----------------|-----------------|----------|-----------------|-------------|---------|
|  | Mortgages(1)<br>£m | Credit<br>cards<br>£m | Other<br>personal<br>£m | Total<br>£m | Property<br>£m | Corporate<br>£m | FI<br>£m | Sovereign<br>£m | Total<br>£m | £m      |
| 31 December 2019                                   |                    |                       |                         |             |                |                 |          |                 |             |         |
| <b>Loans by residual maturity</b>                  | 174,003            | 4,478                 | 10,389                  | 188,870     | 36,371         | 71,042          | 36,266   | 7,419           | 151,098     | 339,968 |
| - <1 year  | 3,996              | 2,750                 | 3,480                   | 10,226      | 7,318          | 24,539          | 27,299   | 5,477           | 64,633      | 74,859  |
| - 1-5 year   | 8,771              | 1,728                 | 5,769                   | 16,268      | 19,774         | 31,215          | 7,922    | 1,164           | 60,075      | 76,343  |
| - 5 year   | 161,236            | -                     | 1,140                   | 162,376     | 9,279          | 15,288          | 1,045    | 778             | 26,390      | 188,766 |
| <b>Other financial assets by asset quality (2)</b> | -                  | -                     | -                       | -           | -              | 110             | 12,185   | 123,170         | 135,465     | 135,465 |
| - AQ1-AQ4  | -                  | -                     | -                       | -           | -              | 110             | 11,742   | 122,906         | 134,758     | 134,758 |
| - AQ5-AQ8  | -                  | -                     | -                       | -           | -              | -               | 441      | 264             | 705         | 705     |
| - AQ9  | -                  | -                     | -                       | -           | -              | -               | 2        | -               | 2           | 2       |
| <b>Off-balance sheet</b>                           | 14,348             | 16,686                | 12,332                  | 43,366      | 15,383         | 51,390          | 16,742   | 1,022           | 84,537      | 127,903 |
| - Loan commitments                                 | 14,345             | 16,686                | 12,285                  | 43,316      | 14,739         | 47,883          | 15,417   | 1,021           | 79,060      | 122,376 |
| - Financial guarantees                             | 3                  | -                     | 47                      | 50          | 644            | 3,507           | 1,325    | 1               | 5,477       | 5,527   |
| <b>Off-balance sheet by asset quality (2)</b>      | 14,348             | 16,686                | 12,332                  | 43,366      | 15,383         | 51,390          | 16,742   | 1,022           | 84,537      | 127,903 |
| - AQ1-AQ4  | 13,506             | 3,818                 | 10,049                  | 27,373      | 11,364         | 34,852          | 15,397   | 984             | 62,597      | 89,970  |
| - AQ5-AQ8  | 832                | 12,588                | 2,271                   | 15,691      | 3,948          | 16,228          | 1,340    | 38              | 21,554      | 37,245  |
| - AQ9  | 1                  | 4                     | 12                      | 17          | 11             | 49              | 4        | -               | 64          | 81      |
| - AQ10   | 9                  | 276                   | -                       | 285         | 60             | 261             | 1        | -               | 322         | 607     |

Notes:

- (1) Includes a portion of secured lending in Private Banking, in line with ECL calculation methodology. Private Banking and RBSI mortgages are reported in UK, reflecting the country of lending origination.
- (2) AQ bandings are based on Basel PDs and the mapping is as follows:

| Internal asset quality band | Probability of default range | Indicative S&P rating |
|-----------------------------|------------------------------|-----------------------|
| AQ1                         | 0% - 0.034%                  | AAA to AA             |
| AQ2                         | 0.034% - 0.048%              | AA to AA-             |
| AQ3                         | 0.048% - 0.095%              | A+ to A               |
| AQ4                         | 0.095% - 0.381%              | BBB+ to BBB-          |
| AQ5                         | 0.381% - 1.076%              | BB+ to BB             |
| AQ6                         | 1.076% - 2.153%              | BB- to B+             |
| AQ7                         | 2.153% - 6.089%              | B+ to B               |
| AQ8                         | 6.089% - 17.222%             | B- to CCC+            |
| AQ9                         | 17.222% - 100%               | CCC to C              |
| AQ10                        | 100%                         | D                     |

£0.3 billion (31 December 2019 – £0.3 billion) of AQ10 Personal balances primarily relate to loan commitments, the drawdown of which is effectively prohibited. AQ10 includes £0.5 billion (31 December 2019 – £0.6 billion) of RoI mortgages which are not currently considered defaulted for capital calculation purposes for RoI but are included in Stage 3.

- (3) 30 DPD – 30 days past due, the mandatory 30 days past due backstop as prescribed by the IFRS 9 guidance for a SICR.
- (4) Days past due – Personal products: at a high level, for amortising products, the number of days past due is derived from the arrears amount outstanding and the monthly repayment instalment. For credit cards, it is based on payments missed, and for current accounts the number of continual days in excess of borrowing limit. Wholesale products: the number of days past due for all products is the number of continual days in excess of borrowing limit.

## Capital and risk management

### Credit risk – Banking activities continued

#### Sector analysis

The table below shows ECL by stage, for key sectors in the Personal and Wholesale portfolios impacted by Covid-19.

|                                     | Loans - amortised cost & FVOCI (1) |               |              |                | Off-balance sheet    |                        | ECL provisions |              |              |              |
|-------------------------------------|------------------------------------|---------------|--------------|----------------|----------------------|------------------------|----------------|--------------|--------------|--------------|
|                                     | Stage 1                            | Stage 2       | Stage 3      | Total          | Loan commitments (1) | Contingent liabilities | Stage 1        | Stage 2      | Stage 3      | Total        |
|                                     | £m                                 | £m            | £m           | £m             | £m                   | £m                     | £m             | £m           | £m           | £m           |
| <b>30 June 2020</b>                 |                                    |               |              |                |                      |                        |                |              |              |              |
| <b>Personal</b>                     | <b>161,432</b>                     | <b>30,778</b> | <b>3,747</b> | <b>195,957</b> | <b>41,279</b>        | <b>48</b>              | <b>178</b>     | <b>1,010</b> | <b>1,404</b> | <b>2,592</b> |
| Mortgages                           | 152,947                            | 26,292        | 2,903        | 182,142        | 11,158               | 3                      | 34             | 292          | 706          | 1,032        |
| Credit cards                        | 2,387                              | 1,321         | 110          | 3,818          | 17,481               | -                      | 47             | 243          | 86           | 376          |
| Other personal                      | 6,098                              | 3,165         | 734          | 9,997          | 12,640               | 45                     | 97             | 475          | 612          | 1,184        |
| <b>Wholesale</b>                    | <b>105,012</b>                     | <b>66,232</b> | <b>3,287</b> | <b>174,531</b> | <b>89,151</b>        | <b>5,038</b>           | <b>291</b>     | <b>2,015</b> | <b>1,456</b> | <b>3,762</b> |
| Property                            | 26,782                             | 12,400        | 1,259        | 40,441         | 15,423               | 607                    | 126            | 392          | 513          | 1,031        |
| Financial institutions              | 39,133                             | 3,789         | 10           | 42,932         | 17,500               | 1,130                  | 22             | 69           | 5            | 96           |
| Sovereign                           | 9,436                              | 1             | 6            | 9,443          | 1,129                | 2                      | 10             | -            | -            | 10           |
| Corporate                           | 29,661                             | 50,042        | 2,012        | 81,715         | 55,099               | 3,299                  | 133            | 1,554        | 938          | 2,625        |
| <i>Of which:</i>                    |                                    |               |              |                |                      |                        |                |              |              |              |
| <i>Airlines and aerospace</i>       | <i>495</i>                         | <i>1,839</i>  | <i>38</i>    | <i>2,372</i>   | <i>1,829</i>         | <i>233</i>             | <i>4</i>       | <i>53</i>    | <i>26</i>    | <i>83</i>    |
| <i>Automotive</i>                   | <i>2,000</i>                       | <i>5,437</i>  | <i>146</i>   | <i>7,583</i>   | <i>3,547</i>         | <i>93</i>              | <i>8</i>       | <i>108</i>   | <i>19</i>    | <i>135</i>   |
| <i>Education</i>                    | <i>704</i>                         | <i>919</i>    | <i>83</i>    | <i>1,706</i>   | <i>725</i>           | <i>19</i>              | <i>2</i>       | <i>27</i>    | <i>16</i>    | <i>45</i>    |
| <i>Health</i>                       | <i>2,055</i>                       | <i>3,650</i>  | <i>168</i>   | <i>5,873</i>   | <i>515</i>           | <i>13</i>              | <i>9</i>       | <i>145</i>   | <i>60</i>    | <i>214</i>   |
| <i>Land transport and logistics</i> | <i>1,149</i>                       | <i>3,334</i>  | <i>110</i>   | <i>4,593</i>   | <i>3,919</i>         | <i>206</i>             | <i>6</i>       | <i>96</i>    | <i>43</i>    | <i>145</i>   |
| <i>Leisure</i>                      | <i>2,755</i>                       | <i>6,739</i>  | <i>534</i>   | <i>10,028</i>  | <i>1,841</i>         | <i>126</i>             | <i>22</i>      | <i>303</i>   | <i>249</i>   | <i>574</i>   |
| <i>Oil and gas</i>                  | <i>465</i>                         | <i>1,535</i>  | <i>89</i>    | <i>2,089</i>   | <i>2,627</i>         | <i>382</i>             | <i>4</i>       | <i>55</i>    | <i>61</i>    | <i>120</i>   |
| <i>Retail</i>                       | <i>2,647</i>                       | <i>5,059</i>  | <i>221</i>   | <i>7,927</i>   | <i>5,858</i>         | <i>507</i>             | <i>13</i>      | <i>158</i>   | <i>170</i>   | <i>341</i>   |
| <i>Shipping</i>                     | <i>293</i>                         | <i>877</i>    | <i>21</i>    | <i>1,191</i>   | <i>219</i>           | <i>38</i>              | <i>2</i>       | <i>90</i>    | <i>11</i>    | <i>103</i>   |
| <i>Textiles</i>                     | <i>73</i>                          | <i>111</i>    | <i>3</i>     | <i>187</i>     | <i>65</i>            | <i>9</i>               | <i>-</i>       | <i>2</i>     | <i>2</i>     | <i>4</i>     |
| <b>Total</b>                        | <b>266,444</b>                     | <b>97,010</b> | <b>7,034</b> | <b>370,488</b> | <b>130,430</b>       | <b>5,086</b>           | <b>469</b>     | <b>3,025</b> | <b>2,860</b> | <b>6,354</b> |
| <b>31 December 2019</b>             |                                    |               |              |                |                      |                        |                |              |              |              |
| <b>Personal</b>                     | <b>169,800</b>                     | <b>15,034</b> | <b>4,036</b> | <b>188,870</b> | <b>43,316</b>        | <b>50</b>              | <b>130</b>     | <b>503</b>   | <b>1,449</b> | <b>2,082</b> |
| Mortgages                           | 159,261                            | 11,465        | 3,277        | 174,003        | 14,345               | 3                      | 25             | 118          | 821          | 964          |
| Credit cards                        | 3,103                              | 1,259         | 116          | 4,478          | 16,686               | -                      | 40             | 132          | 89           | 261          |
| Other personal                      | 7,436                              | 2,310         | 643          | 10,389         | 12,285               | 47                     | 65             | 253          | 539          | 857          |
| <b>Wholesale</b>                    | <b>135,702</b>                     | <b>12,834</b> | <b>2,562</b> | <b>151,098</b> | <b>79,060</b>        | <b>5,477</b>           | <b>192</b>     | <b>249</b>   | <b>1,269</b> | <b>1,710</b> |
| Property                            | 32,896                             | 2,580         | 895          | 36,371         | 14,739               | 644                    | 45             | 47           | 402          | 494          |
| Financial institutions              | 35,707                             | 546           | 13           | 36,266         | 15,417               | 1,325                  | 16             | 4            | 8            | 28           |
| Sovereign                           | 7,410                              | 4             | 5            | 7,419          | 1,021                | 1                      | 7              | -            | -            | 7            |
| Corporate                           | 59,689                             | 9,704         | 1,649        | 71,042         | 47,883               | 3,507                  | 124            | 198          | 859          | 1,181        |
| <i>Of which:</i>                    |                                    |               |              |                |                      |                        |                |              |              |              |
| <i>Airlines and aerospace (2)</i>   | <i>1,412</i>                       | <i>261</i>    | <i>40</i>    | <i>1,713</i>   | <i>1,716</i>         | <i>271</i>             | <i>2</i>       | <i>3</i>     | <i>55</i>    | <i>60</i>    |
| <i>Automotive</i>                   | <i>5,062</i>                       | <i>1,143</i>  | <i>20</i>    | <i>6,225</i>   | <i>3,815</i>         | <i>98</i>              | <i>12</i>      | <i>11</i>    | <i>15</i>    | <i>38</i>    |
| <i>Education</i>                    | <i>1,426</i>                       | <i>154</i>    | <i>12</i>    | <i>1,592</i>   | <i>654</i>           | <i>18</i>              | <i>2</i>       | <i>4</i>     | <i>1</i>     | <i>7</i>     |
| <i>Health</i>                       | <i>4,695</i>                       | <i>844</i>    | <i>167</i>   | <i>5,706</i>   | <i>534</i>           | <i>17</i>              | <i>9</i>       | <i>16</i>    | <i>52</i>    | <i>77</i>    |
| <i>Land transport and logistics</i> | <i>3,477</i>                       | <i>316</i>    | <i>53</i>    | <i>3,846</i>   | <i>3,301</i>         | <i>249</i>             | <i>6</i>       | <i>12</i>    | <i>21</i>    | <i>39</i>    |
| <i>Leisure</i>                      | <i>6,323</i>                       | <i>1,253</i>  | <i>377</i>   | <i>7,953</i>   | <i>2,876</i>         | <i>135</i>             | <i>25</i>      | <i>27</i>    | <i>175</i>   | <i>227</i>   |
| <i>Oil and gas</i>                  | <i>1,923</i>                       | <i>140</i>    | <i>86</i>    | <i>2,149</i>   | <i>2,400</i>         | <i>358</i>             | <i>5</i>       | <i>3</i>     | <i>55</i>    | <i>63</i>    |
| <i>Retail</i>                       | <i>6,397</i>                       | <i>1,279</i>  | <i>215</i>   | <i>7,891</i>   | <i>5,383</i>         | <i>560</i>             | <i>13</i>      | <i>16</i>    | <i>180</i>   | <i>209</i>   |
| <i>Shipping</i>                     | <i>474</i>                         | <i>725</i>    | <i>20</i>    | <i>1,219</i>   | <i>313</i>           | <i>53</i>              | <i>1</i>       | <i>37</i>    | <i>5</i>     | <i>43</i>    |
| <i>Textiles</i>                     | <i>134</i>                         | <i>29</i>     | <i>3</i>     | <i>166</i>     | <i>93</i>            | <i>6</i>               | <i>-</i>       | <i>1</i>     | <i>2</i>     | <i>3</i>     |
| <b>Total</b>                        | <b>305,502</b>                     | <b>27,868</b> | <b>6,598</b> | <b>339,968</b> | <b>122,376</b>       | <b>5,527</b>           | <b>322</b>     | <b>752</b>   | <b>2,718</b> | <b>3,792</b> |

#### Notes:

- (1) Loan commitments as at 30 June 2020 includes £4.1 billion of commercial cards related balances which were brought into scope of ECL calculations in H1 2020.
- (2) Airlines and aerospace Stage 3 ECL at 31 December 2019 included £27 million of ECL related to contingent liabilities.

## Capital and risk management

### Credit risk – Banking activities continued

#### Sector performance in Wholesale portfolios

The nature of the Covid-19 crisis is such that the impact on customers varies significantly by industry sector. NatWest Group has adopted a nuanced response to capture the sector ECL impact by using sector specific CCIs in its Wholesale methodology. The CCIs observed at the reporting date are based on average default probability estimates for publicly-listed companies, in a set of comprehensive sector/region segments derived from the stock market valuation, asset volatility and capital structure of each company. Forward-looking CCIs are projected based on the economic loss drivers in the scenarios (refer to the Use of the scenarios in Wholesale section) and have been adjusted by sector group specific CCI changes observed throughout H1 2020 to make them more sector specific (refer to the industry detail in the Model performance section). Since both, current and projected CCI are driving PD and LGD, NatWest Group obtains modelled ECL outcomes which are significantly differentiated by sector. As a result, the impact on ECL is more pronounced for those sectors which have suffered a more significant disruption from Covid-19.

#### Wholesale forbearance

The table below shows Wholesale forbearance, Heightened Monitoring and Risk of Credit Loss by sector. Personal forbearance is disclosed on page 49.

|   | FI<br>£m | Property<br>£m | Sovereign<br>£m | Other corporate<br>£m | Total<br>£m |
|---|----------|----------------|-----------------|-----------------------|-------------|
| <b>30 June 2020</b>                           |          |                |                 |                       |             |
| Forbearance (flow)                            | 80       | 730            | -               | 2,648                 | 3,458       |
| Heightened Monitoring and Risk of Credit Loss | 154      | 1,333          | -               | 5,960                 | 7,447       |
| <b>31 December 2019</b>                       |          |                |                 |                       |             |
| Forbearance (flow)                            | 35       | 546            | -               | 2,254                 | 2,835       |
| Heightened Monitoring and Risk of Credit Loss | 107      | 1,209          | -               | 4,207                 | 5,523       |

## Capital and risk management

### Credit risk – Banking activities continued

#### Key points

- **Loans by geography** – In the Personal portfolios, exposures continued to be concentrated in the UK and heavily weighted to mortgages and the vast majority of exposures in the Republic of Ireland remained in mortgages. Balance sheet growth since the 2019 year-end was driven by mortgages, primarily pre-Covid-19, in the first quarter of the year. Unsecured lending balances reduced as described earlier. In the Wholesale portfolios, balance sheet growth was driven by additional drawings on existing facilities and new lending under the various government-supported lending schemes which are predominantly to UK customers.
- **Loans by asset quality (based on Basel II PD)** – In the Personal portfolios, asset quality distribution deteriorated slightly in credit cards and other personal since the year-end, with the Basel II point-in-time PDs yet to reflect the expected credit deterioration. In the Wholesale portfolios, Basel II PDs are based on a through-the-cycle approach. The asset quality distribution was relatively stable with only modest deterioration. For further details refer to the Asset quality section.
- **Loans by stage** – In both the Personal and Wholesale portfolios, the deteriorated economic outlook, as detailed in the Covid-19 – estimating ECL in uncertain times section, resulted in increased account level IFRS 9 PDs. Consequently, compared to the 2019 year-end, a larger proportion of accounts exhibited a SICR with an associated migration of exposures from Stage 1 to Stage 2.
- **Loans – past due analysis and Stage 2** – The various Covid-19 related customer support mechanisms (capital repayment holidays, government job retention scheme, government supported lending schemes) are mitigating actual portfolio deterioration in the short term, although there have been some increases in past due exposures.
- **Weighted average PDs** – In Personal, the Basel II point-in-time PDs have yet to be materially affected. The forward-looking IFRS 9 PDs increased reflecting the deteriorated economics. The cards PD had been significantly over-predicting defaults at the 2019 year-end but has now been addressed, hence the relatively small movement. The over-prediction had been mitigated by a downward ECL overlay, now discontinued. The IFRS 9 PDs for both loans and mortgages were under-predicting and an upward ECL overlay adjustment was held in mitigation. In the Wholesale portfolios, the Basel II PDs are based on a through-the-cycle approach and have been relatively stable. The increase in the IFRS 9 PDs reflected the impact of the deteriorated economic outlook.
- **ECL provisions by geography** – In line with exposures by geography, the vast majority of ECL related to exposures in the UK and the Republic of Ireland.
- **ECL provisions by stage** – Stage 1 and Stage 2 provisions have increased reflecting the deteriorated economic outlook. As outlined above, Stage 3 provisions have yet to be materially impacted mitigated by the various customer support mechanisms discussed earlier. In mortgages, the Stage 3 ECL reduction was driven by a debt sale in Ulster Bank RoI, where the exposure value also reduced.
- **ECL provisions coverage** – Overall provisions coverage increased. In Stage 2 alone, at a total Personal level, coverage reduced slightly, driven by a proportionately higher share of mortgage exposures where coverage levels were lower reflecting the secured nature of the borrowing. In Wholesale, overall provisions coverage increased, primarily due to the impact of the deteriorated economic conditions. Stage 1 and Stage 2 coverage increased, particularly in those sectors suffering the most disruption as a result of Covid-19.
- **ECL charge and loss rate** – Reflecting the deteriorated economic outlook, the impairment charge was elevated, with the annualised loss rate for H1 2020 significantly higher than the 2019 outcome.
- **Loans by residual maturity** – In mortgages, the vast majority of exposures remained greater than five years. In unsecured lending – cards and other – exposures were concentrated in less than five years. In Wholesale, the vast majority of new lending was for residual maturity of one-five years, with some greater than five years in line with lending under the government support schemes.
- **Other financial assets by asset quality** – Consisting almost entirely of cash and balances at central banks and debt securities, held in the course of treasury related management activities, these assets were mainly within the AQ1-AQ4 category.
- **Off-balance sheet by asset quality** – In Personal, undrawn exposures were reflective of available credit lines in credit cards and current accounts and have increased slightly as drawn exposures have reduced. Additionally, the mortgage portfolio had undrawn exposure, where a formal offer had been made to a customer but had not yet been drawn down; the value has reduced in line with a reduction in the pipeline of offers. There was also a legacy portfolio of flexible mortgages where a customer had the right and ability to draw down further funds. The asset quality distribution in mortgages remained heavily weighted to the highest quality bands AQ1-AQ4, with credit card concentrated in the risk bands AQ5-AQ8. In Wholesale, undrawn exposures increased additional lending facilities were agreed, primarily as a result of the Covid-19 crisis. The vast majority of new corporate loan commitments were in the AQ5-AQ8 asset quality bands.
- **Wholesale forbearance** – Customers seeking Covid-19 related support, including payment holidays, who were not subject to any wider SICR triggers and who are assessed as having the ability in the medium term post-crisis to be viable and meet credit appetite metrics, were not considered to have been granted forbearance. Completed forbearance flow in H1 2020 for other corporate was £2.6 billion. Retail and leisure continued to represent the largest share of this forbearance flow. Following the outbreak of Covid-19, the flow of forbearance rose significantly in the property and transport sectors, with the rise in transport resulting from forbearance completed on individually significant exposures. Payment holidays and covenant waivers were the most common forms of forbearance granted.
- **Heightened Monitoring and Risk of Credit Loss** – Exposure increased to £7.4 billion (31 December 2019 – £5.5 billion). Consistent with the impacts of Covid-19, increased flows into Heightened Monitoring and Risk of Credit Loss have been noted across a number of sectors. The most material increases in both volumes and exposure was seen within other corporate and particularly in retail and leisure.

## Capital and risk management

### Credit risk – Banking activities continued

#### Personal portfolio

Disclosures in the Personal portfolio section include drawn exposure (gross of provisions).

|                                | 30 June 2020              |                       |                       |                         |                | 31 December 2019          |                       |                       |                         |                |
|--------------------------------|---------------------------|-----------------------|-----------------------|-------------------------|----------------|---------------------------|-----------------------|-----------------------|-------------------------|----------------|
|                                | UK Personal Banking<br>£m | Ulster Bank Rol<br>£m | Private Banking<br>£m | RBS International<br>£m | Total<br>£m    | UK Personal Banking<br>£m | Ulster Bank Rol<br>£m | Private Banking<br>£m | RBS International<br>£m | Total<br>£m    |
| <b>Personal lending</b>        | <b>154,909</b>            | <b>14,007</b>         | <b>10,238</b>         | <b>2,596</b>            | <b>181,750</b> | <b>147,489</b>            | <b>13,598</b>         | <b>9,955</b>          | <b>2,620</b>            | <b>173,662</b> |
| Of which:                      |                           |                       |                       |                         |                |                           |                       |                       |                         |                |
| Mortgages                      |                           |                       |                       |                         |                |                           |                       |                       |                         |                |
| Owner occupied                 | 140,372                   | 13,038                | 8,991                 | 1,728                   | 164,129        | 132,698                   | 12,593                | 8,714                 | 1,747                   | 155,752        |
| Buy-to-let                     | 14,537                    | 969                   | 1,247                 | 868                     | 17,621         | 14,791                    | 1,005                 | 1,241                 | 874                     | 17,911         |
| Interest only - variable       | 5,650                     | 166                   | 3,965                 | 349                     | 10,130         | 6,279                     | 165                   | 3,646                 | 371                     | 10,461         |
| Interest only - fixed          | 13,277                    | 9                     | 4,570                 | 248                     | 18,104         | 12,891                    | 9                     | 4,604                 | 241                     | 17,745         |
| Mixed (1)                      | 6,689                     | 59                    | 1                     | 20                      | 6,769          | 6,288                     | 61                    | 1                     | 20                      | 6,370          |
| Impairment provisions (2)      | 437                       | 571                   | 12                    | 10                      | 1,030          | 309                       | 622                   | 13                    | 11                      | 955            |
| Other personal lending (3)     | 11,650                    | 286                   | 1,943                 | 290                     | 14,169         | 12,778                    | 308                   | 1,767                 | 280                     | 15,133         |
| Impairment provisions (2)      | 1,515                     | 18                    | 21                    | 2                       | 1,556          | 1,087                     | 13                    | 16                    | 1                       | 1,117          |
| <b>Total personal lending</b>  | <b>166,559</b>            | <b>14,293</b>         | <b>12,181</b>         | <b>2,886</b>            | <b>195,919</b> | <b>160,267</b>            | <b>13,906</b>         | <b>11,722</b>         | <b>2,900</b>            | <b>188,795</b> |
| <b>Mortgage LTV ratios</b>     |                           |                       |                       |                         |                |                           |                       |                       |                         |                |
| Total portfolio                | 57%                       | 59%                   | 57%                   | 58%                     | 57%            | 57%                       | 60%                   | 57%                   | 58%                     | 57%            |
| - Stage 1                      | 56%                       | 55%                   | 57%                   | 57%                     | 56%            | 57%                       | 57%                   | 57%                   | 57%                     | 57%            |
| - Stage 2                      | 67%                       | 69%                   | 61%                   | 66%                     | 67%            | 58%                       | 67%                   | 60%                   | 64%                     | 59%            |
| - Stage 3                      | 55%                       | 69%                   | 69%                   | 75%                     | 63%            | 55%                       | 73%                   | 70%                   | 80%                     | 66%            |
| Buy-to-let                     | 52%                       | 60%                   | 55%                   | 52%                     | 53%            | 53%                       | 61%                   | 54%                   | 53%                     | 54%            |
| - Stage 1                      | 51%                       | 54%                   | 55%                   | 52%                     | 51%            | 52%                       | 57%                   | 54%                   | 53%                     | 52%            |
| - Stage 2                      | 60%                       | 74%                   | 65%                   | 50%                     | 62%            | 57%                       | 69%                   | 57%                   | 51%                     | 59%            |
| - Stage 3                      | 58%                       | 75%                   | 54%                   | 62%                     | 64%            | 59%                       | 75%                   | 58%                   | 66%                     | 67%            |
| Gross new mortgage lending (4) | 15,849                    | 400                   | 814                   | 124                     | 17,187         | 31,857                    | 1,184                 | 2,112                 | 355                     | 35,508         |
| Of which:                      |                           |                       |                       |                         |                |                           |                       |                       |                         |                |
| Owner occupied                 | 15,368                    | 399                   | 732                   | 82                      | 16,581         | 30,779                    | 1,175                 | 1,889                 | 248                     | 34,091         |
| Weighted average LTV           | 69%                       | 75%                   | 67%                   | 72%                     | 69%            | 69%                       | 75%                   | 65%                   | 71%                     | 69%            |
| Buy-to-let                     | 481                       | 1                     | 82                    | 42                      | 606            | 1,078                     | 10                    | 222                   | 107                     | 1,417          |
| Weighted average LTV           | 62%                       | 60%                   | 64%                   | 64%                     | 62%            | 60%                       | 58%                   | 60%                   | 63%                     | 60%            |
| Interest only - variable rate  | 51                        | -                     | 394                   | -                       | 445            | 56                        | -                     | 688                   | 4                       | 748            |
| Interest only - fixed rate     | 714                       | -                     | 279                   | 19                      | 1,012          | 1,275                     | -                     | 993                   | 51                      | 2,319          |
| Mixed (1)                      | 674                       | -                     | -                     | 1                       | 675            | 1,074                     | 1                     | -                     | 4                       | 1,079          |
| Forbearance flow               | 255                       | 24                    | 14                    | 6                       | 299            | 450                       | 177                   | 4                     | 5                       | 636            |
| Forbearance stock              | 1,207                     | 1,870                 | 14                    | 13                      | 3,104          | 1,212                     | 2,229                 | 2                     | 11                      | 3,454          |
| Current                        | 650                       | 1,130                 | 9                     | 9                       | 1,798          | 623                       | 1,149                 | 1                     | 9                       | 1,782          |
| 1-3 months in arrears          | 273                       | 132                   | 3                     | -                       | 408            | 338                       | 157                   | -                     | 1                       | 496            |
| > 3 months in arrears          | 284                       | 608                   | 2                     | 4                       | 898            | 251                       | 923                   | 1                     | 1                       | 1,176          |

#### Notes:

- (1) Includes accounts which have an interest only sub-account and a capital and interest sub-account to provide a more comprehensive view of interest only exposures.
- (2) For UK Personal Banking this excludes a non-material amount of provisions held on relatively small legacy portfolios.
- (3) Comprises unsecured lending except for Private Banking, which includes both secured and unsecured lending. It excludes loans that are commercial in nature.
- (4) UK Personal Banking excludes additional lending to existing customers.

#### Key points

- New mortgage lending was higher than in H1 2019, reflecting strong lending before the Covid-19 lockdown. The existing mortgage stock and new business were closely monitored against agreed risk appetite parameters. These included loan-to-value ratios, buy-to-let concentrations, new-build concentrations and credit quality. Underwriting standards were maintained during the period.
- Mortgage growth was driven by the owner-occupied portfolio.
- By value, the proportion of mortgages on interest only and mixed terms (capital and interest only) reduced. This was driven by low proportions of buy-to-let and owner occupier interest only new business.
- In the UK Personal Banking mortgage portfolio, 88% of customer balances were on fixed rates (57% on five-year deals). In addition, 99% of all new mortgage completions were fixed rate deals (41% of these were five-year deals).
- 43% of the stock of UK Personal Banking lending was in Greater London and the South East (31 December 2019 – 43%). The average weighted loan-to-value for these regions was 54% (31 December 2019 – 53%) compared to all regions 57%.
- Impairment provisions – as detailed earlier, the deteriorated economic outlook including forecast increases in unemployment and declines in house prices, resulted in an increased ECL requirement.
- Unsecured balances fell, with the decrease driven principally by reductions in overdrafts and credit card borrowing in the UK Personal Banking segment. Overdraft and credit card usage decreased significantly following the Covid-19 lockdown. NatWest Group also responded to Covid-19 with a more cautious approach in new lending, to protect the bank and customers from potentially unaffordable borrowing.

## Capital and risk management

### Credit risk – Banking activities continued

#### Personal portfolio

##### 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.

| UK Personal Banking     | Mortgages      |               |               |                                   |                |                                   | ECL provisions |               |               |                | ECL provisions coverage (2) |              |              |            |
|-------------------------|----------------|---------------|---------------|-----------------------------------|----------------|-----------------------------------|----------------|---------------|---------------|----------------|-----------------------------|--------------|--------------|------------|
|                         | Stage 1<br>£m  | Stage 2<br>£m | Stage 3<br>£m | Not within IFRS 9 ECL scope<br>£m | Total<br>£m    | Of which: gross new lending<br>£m | Stage 1<br>£m  | Stage 2<br>£m | Stage 3<br>£m | Total(1)<br>£m | Stage 1<br>%                | Stage 2<br>% | Stage 3<br>% | Total<br>% |
| <b>30 June 2020</b>     |                |               |               |                                   |                |                                   |                |               |               |                |                             |              |              |            |
| ≤50%                    | 48,176         | 4,505         | 544           | 125                               | 53,350         | 2,361                             | 3              | 28            | 98            | 129            | -                           | 0.6          | 18.0         | 0.2        |
| >50% and ≤70%           | 48,897         | 6,325         | 487           | 38                                | 55,747         | 4,758                             | 6              | 49            | 74            | 129            | -                           | 0.8          | 15.2         | 0.2        |
| >70% and ≤80%           | 20,039         | 6,796         | 163           | 8                                 | 27,006         | 4,763                             | 3              | 45            | 29            | 77             | -                           | 0.7          | 17.8         | 0.3        |
| >80% and ≤90%           | 10,261         | 5,691         | 80            | 6                                 | 16,038         | 3,262                             | 3              | 53            | 16            | 72             | -                           | 0.9          | 20.4         | 0.4        |
| >90% and ≤100%          | 2,038          | 483           | 19            | 3                                 | 2,543          | 632                               | 1              | 10            | 5             | 16             | -                           | 2.1          | 26.5         | 0.6        |
| >100% and ≤110%         | 22             | 40            | 7             | 1                                 | 70             | -                                 | -              | 2             | 2             | 4              | 0.1                         | 5.3          | 23.5         | 5.3        |
| >110% and ≤130%         | 27             | 49            | 8             | 1                                 | 85             | -                                 | -              | 3             | 2             | 5              | 0.2                         | 6.8          | 30.4         | 6.8        |
| >130% and ≤150%         | 10             | 24            | 5             | -                                 | 39             | -                                 | -              | 2             | 1             | 3              | 0.1                         | 7.0          | 26.1         | 7.9        |
| >150%                   | 1              | 4             | 3             | -                                 | 8              | -                                 | -              | -             | 1             | 1              | 0.1                         | 10.6         | 42.6         | 20.5       |
| Total with LTVs         | 129,471        | 23,917        | 1,316         | 182                               | 154,886        | 15,776                            | 16             | 192           | 228           | 436            | -                           | 0.8          | 17.4         | 0.3        |
| Other                   | 16             | 6             | 1             | -                                 | 23             | 73                                | -              | -             | 1             | 1              | 0.1                         | 5.0          | 75.3         | 3.9        |
| <b>Total</b>            | <b>129,487</b> | <b>23,923</b> | <b>1,317</b>  | <b>182</b>                        | <b>154,909</b> | <b>15,849</b>                     | <b>16</b>      | <b>192</b>    | <b>229</b>    | <b>437</b>     | <b>-</b>                    | <b>0.8</b>   | <b>17.4</b>  | <b>0.3</b> |
| <b>31 December 2019</b> |                |               |               |                                   |                |                                   |                |               |               |                |                             |              |              |            |
| ≤50%                    | 47,746         | 3,375         | 511           | 159                               | 51,791         | 4,661                             | 2              | 19            | 90            | 111            | -                           | 0.6          | 17.6         | 0.2        |
| >50% and ≤70%           | 47,224         | 3,804         | 463           | 91                                | 51,582         | 8,723                             | 3              | 29            | 68            | 100            | -                           | 0.8          | 14.7         | 0.2        |
| >70% and ≤80%           | 23,235         | 1,568         | 150           | 39                                | 24,992         | 8,366                             | 2              | 14            | 26            | 42             | -                           | 0.9          | 17.1         | 0.1        |
| >80% and ≤90%           | 14,030         | 1,111         | 85            | 25                                | 15,251         | 8,675                             | 2              | 12            | 18            | 32             | -                           | 1.1          | 20.5         | 0.2        |
| >90% and ≤100%          | 3,401          | 174           | 20            | 15                                | 3,610          | 1,208                             | 1              | 4             | 5             | 10             | -                           | 2.5          | 25.4         | 0.3        |
| >100% and ≤110%         | 42             | 34            | 8             | 1                                 | 85             | -                                 | -              | 2             | 2             | 4              | 0.1                         | 5.1          | 25.3         | 4.4        |
| >110% and ≤130%         | 47             | 38            | 7             | 1                                 | 93             | -                                 | -              | 2             | 2             | 4              | 0.1                         | 6.1          | 33.5         | 5.0        |
| >130% and ≤150%         | 19             | 22            | 6             | 1                                 | 48             | -                                 | -              | 1             | 2             | 3              | 0.1                         | 6.3          | 27.7         | 6.5        |
| >150%                   | 3              | 6             | 3             | -                                 | 12             | -                                 | -              | -             | 2             | 2              | 0.1                         | 6.5          | 45.7         | 15.2       |
| Total with LTVs         | 135,747        | 10,132        | 1,253         | 332                               | 147,464        | 31,663                            | 10             | 83            | 215           | 308            | -                           | 0.8          | 17.0         | 0.2        |
| Other                   | 21             | 3             | 1             | -                                 | 25             | 224                               | -              | -             | 1             | 1              | 0.1                         | 4.2          | 81.2         | 3.2        |
| <b>Total</b>            | <b>135,768</b> | <b>10,135</b> | <b>1,254</b>  | <b>332</b>                        | <b>147,489</b> | <b>31,857</b>                     | <b>10</b>      | <b>83</b>     | <b>216</b>    | <b>309</b>     | <b>-</b>                    | <b>0.8</b>   | <b>17.1</b>  | <b>0.2</b> |

For the notes to this table refer to the following page.

**Capital and risk management**  
**Credit risk – Banking activities continued**  
**Personal portfolio**

| Ulster Bank Rol         | Mortgages     |               |               |               | Of which:<br>gross new<br>lending | ECL provisions |               |               |                | ECL provisions coverage (2) |              |              |            |
|-------------------------|---------------|---------------|---------------|---------------|-----------------------------------|----------------|---------------|---------------|----------------|-----------------------------|--------------|--------------|------------|
|                         | Stage 1<br>£m | Stage 2<br>£m | Stage 3<br>£m | Total<br>£m   |                                   | Stage 1<br>£m  | Stage 2<br>£m | Stage 3<br>£m | Total(1)<br>£m | Stage 1<br>%                | Stage 2<br>% | Stage 3<br>% | Total<br>% |
| <b>30 June 2020</b>     |               |               |               |               |                                   |                |               |               |                |                             |              |              |            |
| ≤50%                    | 4,197         | 538           | 413           | 5,148         | 34                                | 6              | 20            | 103           | 129            | 0.1                         | 3.7          | 24.9         | 2.5        |
| >50% and ≤70%           | 3,376         | 542           | 297           | 4,215         | 84                                | 5              | 23            | 73            | 101            | 0.1                         | 4.2          | 24.6         | 2.4        |
| >70% and ≤80%           | 1,379         | 325           | 154           | 1,858         | 138                               | 2              | 14            | 49            | 65             | 0.1                         | 4.3          | 31.8         | 3.5        |
| >80% and ≤90%           | 1,051         | 335           | 150           | 1,536         | 141                               | 2              | 15            | 54            | 71             | 0.2                         | 4.5          | 36.0         | 4.6        |
| >90% and ≤100%          | 276           | 244           | 124           | 644           | -                                 | 1              | 11            | 52            | 64             | 0.4                         | 4.5          | 41.9         | 9.9        |
| >100% and ≤110%         | 89            | 139           | 100           | 328           | 2                                 | -              | 8             | 47            | 55             | -                           | 5.8          | 47.0         | 16.8       |
| >110% and ≤130%         | 41            | 80            | 97            | 218           | 1                                 | -              | 6             | 52            | 58             | -                           | 7.5          | 53.6         | 26.6       |
| >130% and ≤150%         | 5             | 7             | 30            | 42            | -                                 | -              | 1             | 20            | 21             | -                           | 14.3         | 66.7         | 50.0       |
| >150%                   | 3             | 6             | 9             | 18            | -                                 | -              | -             | 7             | 7              | -                           | -            | 77.8         | 38.9       |
| <b>Total</b>            | <b>10,417</b> | <b>2,216</b>  | <b>1,374</b>  | <b>14,007</b> | <b>400</b>                        | <b>16</b>      | <b>98</b>     | <b>457</b>    | <b>571</b>     | <b>0.2</b>                  | <b>4.4</b>   | <b>33.3</b>  | <b>4.1</b> |
| <b>31 December 2019</b> |               |               |               |               |                                   |                |               |               |                |                             |              |              |            |
| ≤50%                    | 4,107         | 308           | 475           | 4,890         | 107                               | 4              | 7             | 97            | 108            | 0.1                         | 2.3          | 20.5         | 2.2        |
| >50% and ≤70%           | 3,382         | 274           | 409           | 4,065         | 231                               | 3              | 7             | 90            | 100            | 0.1                         | 2.6          | 22.0         | 2.5        |
| >70% and ≤80%           | 1,381         | 151           | 219           | 1,751         | 356                               | 2              | 4             | 60            | 66             | 0.1                         | 3.0          | 27.5         | 3.8        |
| >80% and ≤90%           | 1,132         | 145           | 217           | 1,494         | 484                               | 1              | 5             | 76            | 82             | 0.1                         | 3.0          | 35.1         | 5.5        |
| >90% and ≤100%          | 381           | 102           | 188           | 671           | 3                                 | 1              | 3             | 72            | 76             | 0.2                         | 2.9          | 38.6         | 11.3       |
| >100% and ≤110%         | 167           | 57            | 151           | 375           | 2                                 | -              | 2             | 67            | 69             | 0.3                         | 3.5          | 44.0         | 18.4       |
| >110% and ≤130%         | 82            | 36            | 152           | 270           | 1                                 | -              | 2             | 78            | 80             | 0.3                         | 4.9          | 51.3         | 29.7       |
| >130% and ≤150%         | 8             | 3             | 46            | 57            | -                                 | -              | -             | 30            | 30             | 0.6                         | 4.1          | 64.7         | 51.9       |
| >150%                   | 7             | 3             | 15            | 25            | -                                 | -              | -             | 11            | 11             | 0.3                         | 8.2          | 71.4         | 44.6       |
| <b>Total with LTVs</b>  | <b>10,647</b> | <b>1,079</b>  | <b>1,872</b>  | <b>13,598</b> | <b>1,184</b>                      | <b>11</b>      | <b>30</b>     | <b>581</b>    | <b>622</b>     | <b>0.1</b>                  | <b>2.8</b>   | <b>31.0</b>  | <b>4.6</b> |

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**

- ECL coverage rates increase through the LTV bands with both UK Personal Banking and Ulster Bank Rol currently having only limited exposures in the highest LTV bands. The relatively high coverage level in the lowest LTV band for UK Personal Banking 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.
- The deteriorated economic outlook, as detailed in the Covid-19 – estimating ECL in uncertain times section, resulted in increased account level IFRS 9 PDs. Consequently, compared to the 2019 year-end, a larger proportion of accounts exhibited a SICR with an associated migration of exposures from Stage 1 to Stage 2.

## Capital and risk management

### Credit risk – Banking activities continued

#### Personal portfolio

#### UK Personal Banking mortgage LTV distribution by region

#### LTV ratio value

|                         | ≤ 50%<br>£m   | 50% ≤ 80%<br>£m | 80% ≤ 100%<br>£m | 100% ≤ 150%<br>£m | > 150%<br>£m | Total<br>£m    | Weighted<br>average LTV<br>% | Other<br>£m | Total<br>£m    | Total<br>% |
|-------------------------|---------------|-----------------|------------------|-------------------|--------------|----------------|------------------------------|-------------|----------------|------------|
| <b>30 June 2020</b>     |               |                 |                  |                   |              |                |                              |             |                |            |
| South East              | 14,284        | 21,339          | 4,329            | 7                 | -            | 39,959         | 57                           | 6           | 39,965         | 26         |
| Greater London          | 13,459        | 11,797          | 1,625            | 4                 | -            | 26,885         | 50                           | 4           | 26,889         | 17         |
| Scotland                | 3,621         | 6,231           | 1,429            | 2                 | -            | 11,283         | 58                           | 1           | 11,284         | 7          |
| North West              | 4,414         | 8,619           | 1,808            | 3                 | -            | 14,844         | 59                           | 3           | 14,847         | 10         |
| South West              | 4,600         | 7,764           | 1,451            | 4                 | -            | 13,819         | 57                           | 2           | 13,821         | 9          |
| West Midlands           | 3,347         | 6,604           | 1,290            | 4                 | -            | 11,245         | 59                           | 1           | 11,246         | 7          |
| Rest of the UK          | 9,627         | 20,397          | 6,649            | 170               | 8            | 36,851         | 62                           | 6           | 36,857         | 24         |
| <b>Total</b>            | <b>53,352</b> | <b>82,751</b>   | <b>18,581</b>    | <b>194</b>        | <b>8</b>     | <b>154,886</b> | <b>57</b>                    | <b>23</b>   | <b>154,909</b> | <b>100</b> |
| <b>31 December 2019</b> |               |                 |                  |                   |              |                |                              |             |                |            |
| South East              | 14,175        | 19,390          | 3,920            | 7                 | -            | 37,492         | 56                           | 7           | 37,499         | 25         |
| Greater London          | 13,199        | 10,496          | 1,504            | 4                 | -            | 25,203         | 49                           | 4           | 25,207         | 17         |
| Scotland                | 3,395         | 5,946           | 1,726            | 3                 | -            | 11,070         | 60                           | 1           | 11,071         | 8          |
| North West              | 4,449         | 8,420           | 1,524            | 4                 | -            | 14,397         | 58                           | 2           | 14,399         | 10         |
| South West              | 4,482         | 7,374           | 1,391            | 5                 | -            | 13,252         | 57                           | 2           | 13,254         | 9          |
| West Midlands           | 3,086         | 6,109           | 1,520            | 5                 | -            | 10,720         | 60                           | 1           | 10,721         | 7          |
| Rest of the UK          | 9,004         | 18,839          | 7,276            | 198               | 13           | 35,330         | 63                           | 8           | 35,338         | 24         |
| <b>Total</b>            | <b>51,790</b> | <b>76,574</b>   | <b>18,861</b>    | <b>226</b>        | <b>13</b>    | <b>147,464</b> | <b>57</b>                    | <b>25</b>   | <b>147,489</b> | <b>100</b> |

#### Commercial real estate (CRE)

The CRE portfolio comprises exposures to entities involved in the development of, or investment in, commercial and residential properties (including house builders but excluding housing associations, construction and the building materials sub sector). The sector is reviewed regularly by senior executive committees. Reviews include portfolio credit quality, capital consumption and control frameworks. All disclosures in the CRE section are based on current exposure (gross of provisions and risk transfer). Current exposure is defined as: loans; the amount drawn under a credit facility plus accrued interest; contingent obligations; the issued amount of the guarantee or letter of credit; derivatives – the mark-to-market value, netted where netting agreements exist and net of legally enforceable collateral.

|  | 30 June 2020  |              |             |               | 31 December 2019 |              |             |               |
|--|---------------|--------------|-------------|---------------|------------------|--------------|-------------|---------------|
|  | UK<br>£m      | Rol<br>£m    | Other<br>£m | Total<br>£m   | UK<br>£m         | Rol<br>£m    | Other<br>£m | Total<br>£m   |
| <b>By geography and sub sector (1)</b> |               |              |             |               |                  |              |             |               |
| <b>Investment</b>                      |               |              |             |               |                  |              |             |               |
| Residential (2)                        | 4,791         | 412          | 5           | 5,208         | 4,507            | 462          | 27          | 4,996         |
| Office (3)                             | 3,737         | 210          | 58          | 4,005         | 2,916            | 183          | 83          | 3,182         |
| Retail (4)                             | 5,419         | 64           | 78          | 5,561         | 5,277            | 63           | 62          | 5,402         |
| Industrial (5)                         | 2,881         | 18           | 100         | 2,999         | 2,457            | 18           | 115         | 2,590         |
| Mixed/other (6)                        | 3,199         | 202          | 170         | 3,571         | 3,672            | 187          | 56          | 3,915         |
|  | <b>20,027</b> | <b>906</b>   | <b>411</b>  | <b>21,344</b> | <b>18,829</b>    | <b>913</b>   | <b>343</b>  | <b>20,085</b> |
| <b>Development</b>                     |               |              |             |               |                  |              |             |               |
| Residential (2)                        | 3,052         | 233          | 8           | 3,293         | 2,464            | 165          | 5           | 2,634         |
| Office (3)                             | 137           | 22           | -           | 159           | 78               | 17           | -           | 95            |
| Retail (4)                             | 147           | -            | 1           | 148           | 134              | 2            | 1           | 137           |
| Industrial (5)                         | 129           | 2            | -           | 131           | 85               | 2            | -           | 87            |
| Mixed/other (6)                        | 24            | 2            | -           | 26            | 16               | 2            | -           | 18            |
|  | <b>3,489</b>  | <b>259</b>   | <b>9</b>    | <b>3,757</b>  | <b>2,777</b>     | <b>188</b>   | <b>6</b>    | <b>2,971</b>  |
| <b>Total</b>                           | <b>23,516</b> | <b>1,165</b> | <b>420</b>  | <b>25,101</b> | <b>21,606</b>    | <b>1,101</b> | <b>349</b>  | <b>23,056</b> |

#### Notes:

- (1) Geographical splits are based on country of collateral risk.
- (2) Properties including houses, flats and student accommodation.
- (3) Properties including offices in central business districts, regional headquarters and business parks.
- (4) Properties including high street retail, shopping centres, restaurants, bars and gyms.
- (5) Properties including distribution centres, manufacturing and warehouses.
- (6) Properties that do not fall within the other categories above. Mixed generally relates to a mixture of retail/office with residential.

## Capital and risk management

### Credit risk – Banking activities continued

#### Commercial real estate

##### CRE LTV distribution by stage

The table below shows CRE current exposure and related ECL by LTV band.

|                             | Current exposure (gross of provisions) (1,2) |              |              |                                 |               | ECL provisions |            |            |            | ECL provisions coverage (4) |            |             |            |
|-----------------------------|--|--------------|--------------|---------------------------------|---------------|----------------|------------|------------|------------|-----------------------------|------------|-------------|------------|
|                             | Stage 1                                      | Stage 2      | Stage 3      | Not within IFRS 9 ECL scope (3) | Total         | Stage 1        | Stage 2    | Stage 3    | Total(1)   | Stage 1                     | Stage 2    | Stage 3     | Total      |
|                             | £m   | £m           | £m           | £m                              | £m            | £m             | £m         | £m         | £m         | %                           | %          | %           | %          |
| <b>30 June 2020</b>         |  |              |              |                                 |               |                |            |            |            |                             |            |             |            |
| ≤50%                        | 7,445  | 2,904        | 70           | -                               | 10,419        | 45             | 88         | 18         | 151        | 0.6                         | 3.0        | 25.7        | 1.4        |
| >50% and ≤70%               | 4,445  | 1,732        | 216          | -                               | 6,393         | 35             | 68         | 70         | 173        | 0.8                         | 3.9        | 32.4        | 2.7        |
| >70% and ≤80%               | 163  | 72           | 44           | -                               | 279           | 2              | 3          | 12         | 17         | 1.2                         | 4.2        | 27.3        | 6.1        |
| >80% and ≤90%               | 66   | 91           | 20           | -                               | 177           | 1              | 5          | 4          | 10         | 1.5                         | 5.5        | 20.0        | 5.6        |
| >90% and ≤100%              | 42   | 22           | 126          | -                               | 190           | -              | 2          | 42         | 44         | -                           | 9.1        | 33.3        | 23.2       |
| >100% and ≤110%             | 15   | 23           | 63           | -                               | 101           | -              | 4          | 11         | 15         | -                           | 17.4       | 17.5        | 14.9       |
| >110% and ≤130%             | 16   | 15           | 59           | -                               | 90            | -              | 2          | 32         | 34         | -                           | 13.3       | 54.2        | 37.8       |
| >130% and ≤150%             | 5  | 8            | 10           | -                               | 23            | -              | 1          | 5          | 6          | -                           | 12.5       | 50.0        | 26.1       |
| >150%                       | 63   | 21           | 28           | -                               | 112           | 1              | 3          | 18         | 22         | 1.6                         | 14.3       | 64.3        | 19.6       |
| Total with LTVs             | 12,260                                       | 4,888        | 636          | -                               | 17,784        | 84             | 176        | 212        | 472        | 0.7                         | 3.6        | 33.3        | 2.7        |
| Total portfolio average LTV | 45%  | 47%          | 88%          | 50%                             | 47%           | -              | -          | -          | -          | -                           | -          | -           | -          |
| Other (5)                   | 1,406  | 1,014        | 210          | 930                             | 3,560         | 6              | 62         | 96         | 164        | 0.4                         | 6.1        | 45.7        | 6.2        |
| Development (6)             | 1,323  | 2,173        | 176          | 85                              | 3,757         | 16             | 49         | 67         | 132        | 1.2                         | 2.3        | 38.1        | 3.6        |
| <b>Total</b>                | <b>14,989</b>                                | <b>8,075</b> | <b>1,022</b> | <b>1,015</b>                    | <b>25,101</b> | <b>106</b>     | <b>287</b> | <b>375</b> | <b>768</b> | <b>0.7</b>                  | <b>3.6</b> | <b>36.7</b> | <b>3.2</b> |
| <b>31 December 2019</b>     |  |              |              |                                 |               |                |            |            |            |                             |            |             |            |
| ≤50%                        | 8,787  | 468          | 40           | 837                             | 10,132        | 8              | 8          | 11         | 27         | 0.1                         | 1.7        | 27.5        | 0.3        |
| >50% and ≤70%               | 4,945  | 252          | 148          | 846                             | 6,191         | 7              | 6          | 33         | 46         | 0.1                         | 2.4        | 22.3        | 0.9        |
| >70% and ≤80%               | 269  | 38           | 51           | 9                               | 367           | 1              | 1          | 19         | 21         | 0.4                         | 2.6        | 37.3        | 5.9        |
| >80% and ≤90%               | 61   | 19           | 15           | 2                               | 97            | -              | 1          | 3          | 4          | -                           | 5.3        | 20.0        | 4.2        |
| >90% and ≤100%              | 50   | 81           | 22           | 1                               | 154           | -              | 2          | 15         | 17         | -                           | 2.5        | 68.2        | 11.1       |
| >100% and ≤110%             | 18   | 13           | 52           | -                               | 83            | -              | -          | 5          | 5          | -                           | -          | 9.6         | 6.0        |
| >110% and ≤130%             | 20   | 26           | 46           | 1                               | 93            | -              | 1          | 16         | 17         | -                           | 3.8        | 34.8        | 18.5       |
| >130% and ≤150%             | 3  | 6            | 18           | -                               | 27            | -              | -          | 7          | 7          | -                           | -          | 38.9        | 25.9       |
| >150%                       | 63   | 6            | 37           | -                               | 106           | -              | 1          | 24         | 25         | -                           | 16.7       | 64.9        | 23.6       |
| Total with LTVs             | 14,216                                       | 909          | 429          | 1,696                           | 17,250        | 16             | 20         | 133        | 169        | 0.1                         | 2.2        | 31.0        | 1.1        |
| Total portfolio average LTV | 46%  | 55%          | 101%         | 48%                             | 48%           | -              | -          | -          | -          | -                           | -          | -           | -          |
| Other (5)                   | 658  | 149          | 123          | 1,905                           | 2,835         | 5              | 4          | 54         | 63         | 0.8                         | 2.7        | 43.9        | 6.8        |
| Development (6)             | 2,377  | 272          | 144          | 178                             | 2,971         | 8              | 4          | 73         | 85         | 0.3                         | 1.5        | 50.7        | 3.0        |
| <b>Total</b>                | <b>17,251</b>                                | <b>1,330</b> | <b>696</b>   | <b>3,779</b>                    | <b>23,056</b> | <b>29</b>      | <b>28</b>  | <b>260</b> | <b>317</b> | <b>0.2</b>                  | <b>2.1</b> | <b>37.4</b> | <b>1.6</b> |

#### Notes:

- (1) Comprises gross lending, interest rate hedging derivatives and other assets carried at fair value that are managed as part of the overall CRE portfolio.
- (2) The exposure in Stage 3 mainly related to legacy assets.
- (3) Includes exposures relating to non-modelled portfolios and other exposures carried at fair value, including derivatives.
- (4) ECL provisions coverage is ECL provisions divided by current exposure.
- (5) Relates mainly to business banking, rate risk management products and unsecured corporate lending. The low Stage 3 ECL provisions coverage was driven by a single large exposure, which was written down to the expected recoverable amount.
- (6) Relates to the development of commercial and residential properties. LTV is not a meaningful measure for this type of lending activity.

#### Key points

- **Overall** – The majority of the CRE portfolio was managed in the UK within Commercial Banking and Private Banking. Business appetite and strategy remained aligned across the segments.
- **2020 trends** – The portfolio remained broadly unchanged in composition. While new activity in H1 2020 was subdued due to Covid-19, NatWest Group has supported existing customers with capital repayment holidays, interest roll-ups and extensions using CRE specific criteria and government-backed Covid-19 support schemes. The retail and leisure sectors were heavily affected by the government-imposed lockdown, resulting in low rental payments. The office sector was more resilient overall, albeit the smaller serviced-office sub-sector came under some stress given the short-term nature of income and site closures. Demand for office space in the medium-term is expected to decline with flexible working trends continuing post Covid-19. Residential development re-started but progress is slow with social distancing measures. The early resurgence in residential sales following the housing market hiatus is expected to curtail as the economic outlook becomes clearer.
- **Credit quality** – Despite significant challenges across the CRE sector, Heightened Monitoring inflows by volume were stable. By value, Heightened monitoring and Risk of Credit Loss increased due to some larger names, particularly in the retail sub-sector.
- **Risk appetite** – Appetite in CRE remains cautious. Pre-Covid-19 conservative lending criteria remains in place, including lower leverage required for new London office originations and parts of the retail sector.

## Capital and risk management

### Credit risk – Banking activities 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 in this section may therefore 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 (Profit or loss (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 small number of write-offs in Stage 1 and Stage 2 reflect the effect of portfolio debt sales and also staging at the start of the analysis period.
- NatWest Group continues to hold post model adjustments (PMAs) on a temporary basis ahead of the underlying model parameter changes being implemented, as well as on certain portfolio segments where management judge additional ECL is required. The impact of any change in PMAs during the year is reported under changes in risk parameters, as are any impacts arising from changes to the underlying models.
- 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<br>£m | ECL<br>£m |
| <b>NatWest Group total</b>                  |                        |           |                        |           |                        |           |                        |           |
| At 1 January 2020                           | 428,604                | 322       | 28,630                 | 752       | 7,135                  | 2,718     | 464,369                | 3,792     |
| Currency translation and other adjustments  | 6,386                  | 4         | 430                    | 9         | 165                    | 46        | 6,981                  | 59        |
| Transfers from Stage 1 to Stage 2           | (86,717)               | (385)     | 86,717                 | 385       | -                      | -         | -                      | -         |
| Transfers from Stage 2 to Stage 1           | 11,976                 | 200       | (11,976)               | (200)     | -                      | -         | -                      | -         |
| Transfers to Stage 3                        | (360)                  | -         | (1,849)                | (145)     | 2,209                  | 145       | -                      | -         |
| Transfers from Stage 3                      | 133                    | 20        | 835                    | 75        | (968)                  | (95)      | -                      | -         |
| Net re-measurement of ECL on stage transfer |                        | (170)     |                        | 1,564     |                        | 336       |                        | 1,730     |
| Changes in risk parameters (model inputs)   |                        | 372       |                        | 604       |                        | 180       |                        | 1,156     |
| Other changes in net exposure               | 52,463                 | 106       | (2,024)                | (18)      | (744)                  | (19)      | 49,695                 | 69        |
| Other (P&L only items)                      |                        | -         |                        | -         |                        | (97)      |                        | (97)      |
| <b>Income statement charges</b>             |                        | 308       |                        | 2,150     |                        | 400       |                        | 2,858     |
| Amounts written-off                         | -                      | -         | (1)                    | (1)       | (405)                  | (405)     | (406)                  | (406)     |
| Unwinding of discount                       |                        | -         |                        | -         |                        | (46)      |                        | (46)      |
| At 30 June 2020                             | 412,485                | 469       | 100,762                | 3,025     | 7,392                  | 2,860     | 520,639                | 6,354     |
| <b>Net carrying amount</b>                  | 412,016                |           | 97,737                 |           | 4,532                  |           | 514,285                |           |
| At 1 January 2019                           | 422,541                | 297       | 27,360                 | 772       | 8,251                  | 2,782     | 458,152                | 3,851     |
| 2019 movements                              | (10,048)               | (17)      | (553)                  | (90)      | (332)                  | 13        | (10,933)               | (94)      |
| At 30 June 2019                             | 412,493                | 280       | 26,807                 | 682       | 7,919                  | 2,795     | 447,219                | 3,757     |
| <b>Net carrying amount</b>                  | 412,213                |           | 26,125                 |           | 5,124                  |           | 443,462                |           |

## Capital and risk management

### Credit risk – Banking activities continued

#### Flow statements

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

|   | Stage 1                |           | Stage 2                |            | Stage 3                |            | Total                  |            |
|---|------------------------|-----------|------------------------|------------|------------------------|------------|------------------------|------------|
|   | Financial assets<br>£m | ECL<br>£m | Financial assets<br>£m | ECL<br>£m  | Financial assets<br>£m | ECL<br>£m  | Financial assets<br>£m | ECL<br>£m  |
| <b>UK Personal Banking - mortgages</b>      |                        |           |                        |            |                        |            |                        |            |
| <b>At 1 January 2020</b>                    | <b>135,625</b>         | <b>12</b> | <b>10,283</b>          | <b>86</b>  | <b>1,289</b>           | <b>215</b> | <b>147,197</b>         | <b>313</b> |
| Currency translation and other adjustments  | -                      | -         | -                      | -          | 9                      | 9          | 9                      | 9          |
| Transfers from Stage 1 to Stage 2           | (17,557)               | (5)       | 17,557                 | 5          | -                      | -          | -                      | -          |
| Transfers from Stage 2 to Stage 1           | 3,051                  | 9         | (3,051)                | (9)        | -                      | -          | -                      | -          |
| Transfers to Stage 3                        | (10)                   | -         | (335)                  | (12)       | 345                    | 12         | -                      | -          |
| Transfers from Stage 3                      | 7                      | -         | 172                    | 12         | (179)                  | (12)       | -                      | -          |
| Net re-measurement of ECL on stage transfer |                        | (8)       |                        | 95         |                        | 4          |                        | 91         |
| Changes in risk parameters (model inputs)   |                        | 10        |                        | 20         |                        | 34         |                        | 64         |
| Other changes in net exposure               | 7,089                  | (1)       | (554)                  | (5)        | (115)                  | (6)        | 6,420                  | (12)       |
| Other (P&L only items)                      |                        | -         |                        | -          |                        | (14)       |                        | (14)       |
| <b>Income statement charges</b>             |                        | <b>1</b>  |                        | <b>110</b> |                        | <b>18</b>  |                        | <b>129</b> |
| Amounts written-off                         | -                      | -         | -                      | -          | (8)                    | (8)        | (8)                    | (8)        |
| Unwinding of discount                       |                        | -         |                        | -          |                        | (18)       |                        | (18)       |
| <b>At 30 June 2020</b>                      | <b>128,205</b>         | <b>17</b> | <b>24,072</b>          | <b>192</b> | <b>1,341</b>           | <b>230</b> | <b>153,618</b>         | <b>439</b> |
| <b>Net carrying amount</b>                  | <b>128,188</b>         |           | <b>23,880</b>          |            | <b>1,111</b>           |            | <b>153,179</b>         |            |
| <b>At 1 January 2019</b>                    | 127,671                | 10        | 10,241                 | 74         | 1,286                  | 202        | 139,198                | 286        |
| 2019 movements                              | 535                    | (1)       | 149                    | 3          | 2                      | -          | 686                    | 2          |
| <b>At 30 June 2019</b>                      | 128,206                | 9         | 10,390                 | 77         | 1,288                  | 202        | 139,884                | 288        |
| <b>Net carrying amount</b>                  | 128,197                |           | 10,313                 |            | 1,086                  |            | 139,596                |            |

#### Key points

- The increase in ECL in Stage 1 and Stage 2 was primarily driven by the deterioration in the economic outlook as detailed in the Covid-19 – estimating ECL in uncertain times section, causing both PDs and LGDs to increase.
- The updated economics also resulted in a net migration of assets from Stage 1 to Stage 2 with a consequent increase from a 12 month ECL to a lifetime ECL.
- In Stage 3, reflecting the various customer support mechanisms available, ECL was less impacted than in Stage 1 and Stage 2.
- In Stage 3, the ECL cost within changes in risk parameters included the forward-looking impact of forecast reductions in house prices, as well as the monthly assessment of the loss requirement, capturing underlying portfolio movements.
- Write-off occurs once the repossessed property has been sold and there is a residual shortfall balance remaining outstanding. Write-off would typically be within five years from default but can be longer.

**Capital and risk management**  
**Credit risk – Banking activities continued**  
**Flow statements**

|   | Stage 1                |           | Stage 2                |           | Stage 3                |           | Total                  |           |
|---|------------------------|-----------|------------------------|-----------|------------------------|-----------|------------------------|-----------|
|   | Financial assets<br>£m | ECL<br>£m |
| <b>UK Personal Banking - credit cards</b>   |                        |           |                        |           |                        |           |                        |           |
| At 1 January 2020                           | 2,804                  | 38        | 1,246                  | 131       | 127                    | 88        | 4,177                  | 257       |
| Transfers from Stage 1 to Stage 2           | (860)                  | (29)      | 860                    | 29        | -                      | -         | -                      | -         |
| Transfers from Stage 2 to Stage 1           | 575                    | 46        | (575)                  | (46)      | -                      | -         | -                      | -         |
| Transfers to Stage 3                        | (10)                   | -         | (59)                   | (24)      | 69                     | 24        | -                      | -         |
| Transfers from Stage 3                      | -                      | -         | 5                      | 3         | (5)                    | (3)       | -                      | -         |
| Net re-measurement of ECL on stage transfer |                        | (32)      |                        | 163       |                        | 23        |                        | 154       |
| Changes in risk parameters (model inputs)   |                        | 5         |                        | (30)      |                        | 5         |                        | (20)      |
| Other changes in net exposure               | (332)                  | 17        | (157)                  | 14        | (15)                   | -         | (504)                  | 31        |
| Other (P&L only items)                      |                        | -         |                        | -         |                        | (2)       |                        | (2)       |
| <b>Income statement (releases)/charges</b>  |                        | (10)      |                        | 147       |                        | 26        |                        | 163       |
| Amounts written-off                         | -                      | -         | -                      | -         | (49)                   | (49)      | (49)                   | (49)      |
| Unwinding of discount                       |                        | -         |                        | -         |                        | (3)       |                        | (3)       |
| At 30 June 2020                             | 2,177                  | 45        | 1,320                  | 240       | 127                    | 85        | 3,624                  | 370       |
| <b>Net carrying amount</b>                  | <b>2,132</b>           |           | <b>1,080</b>           |           | <b>42</b>              |           | <b>3,254</b>           |           |
| At 1 January 2019                           | 2,632                  | 36        | 1,226                  | 118       | 108                    | 73        | 3,966                  | 227       |
| 2019 movements                              | (82)                   | (2)       | (29)                   | (20)      | 20                     | 15        | (91)                   | (7)       |
| At 30 June 2019                             | 2,550                  | 34        | 1,197                  | 98        | 128                    | 88        | 3,875                  | 220       |
| <b>Net carrying amount</b>                  | <b>2,516</b>           |           | <b>1,099</b>           |           | <b>40</b>              |           | <b>3,655</b>           |           |

**Key points**

- The increase in ECL in Stage 1 and Stage 2 was primarily driven by the deterioration in the economic outlook as detailed in the Covid-19 – estimating ECL in uncertain times section, causing PDs to increase.
- The updated economics also resulted in a net migration of assets from Stage 1 to Stage 2 with a consequent increase from a 12 month ECL to a lifetime ECL.
- In Stage 3, reflecting the various customer support mechanisms available, ECL was less impacted than Stage 2.
- Charge-off (analogous to partial write-off) typically occurs after 12 missed payments.

## Capital and risk management

### Credit risk – Banking activities continued

#### Flow statements

|  | Stage 1                |           | Stage 2                |           | Stage 3                |           | Total                  |           |
|--|------------------------|-----------|------------------------|-----------|------------------------|-----------|------------------------|-----------|
|  | Financial assets<br>£m | ECL<br>£m |
| UK Personal Banking - other personal unsecured |                        |           |                        |           |                        |           |                        |           |
| At 1 January 2020                              | 5,417                  | 63        | 2,250                  | 252       | 608                    | 518       | 8,275                  | 833       |
| Currency translation and other adjustments     | -                      | -         | -                      | -         | 2                      | 3         | 2                      | 3         |
| Transfers from Stage 1 to Stage 2              | (2,347)                | (52)      | 2,347                  | 52        | -                      | -         | -                      | -         |
| Transfers from Stage 2 to Stage 1              | 771                    | 48        | (771)                  | (48)      | -                      | -         | -                      | -         |
| Transfers to Stage 3                           | (6)                    | -         | (180)                  | (59)      | 186                    | 59        | -                      | -         |
| Transfers from Stage 3                         | 1                      | -         | 19                     | 6         | (20)                   | (6)       | -                      | -         |
| Net re-measurement of ECL on stage transfer    |                        | (32)      |                        | 206       |                        | 56        |                        | 230       |
| Changes in risk parameters (model inputs)      |                        | 55        |                        | 86        |                        | 29        |                        | 170       |
| Other changes in net exposure                  | 309                    | 11        | (473)                  | (26)      | (13)                   | (4)       | (177)                  | (19)      |
| Other (P&L only items)                         |                        | -         |                        | -         |                        | (16)      |                        | (16)      |
| Income statement charges                       |                        | 34        |                        | 266       |                        | 65        |                        | 365       |
| Amounts written-off                            | -                      | -         | -                      | -         | (61)                   | (61)      | (61)                   | (61)      |
| Unwinding of discount                          |                        | -         |                        | -         |                        | (8)       |                        | (8)       |
| At 30 June 2020                                | 4,145                  | 93        | 3,192                  | 469       | 702                    | 586       | 8,039                  | 1,148     |
| Net carrying amount                            | 4,052                  |           | 2,723                  |           | 116                    |           | 6,891                  |           |
| At 1 January 2019                              | 5,073                  | 54        | 1,970                  | 239       | 503                    | 402       | 7,546                  | 695       |
| 2019 movements                                 | 329                    | 2         | 191                    | 3         | 92                     | 98        | 612                    | 103       |
| At 30 June 2019                                | 5,402                  | 56        | 2,161                  | 242       | 595                    | 500       | 8,158                  | 798       |
| Net carrying amount                            | 5,346                  |           | 1,919                  |           | 95                     |           | 7,360                  |           |

#### Key points

- The increase in ECL in Stage 1 and Stage 2 was primarily driven by the deterioration in the economic outlook as detailed in the Covid-19 – estimating ECL in uncertain times section, causing PDs to increase.
- The updated economics also resulted in a net migration of assets from Stage 1 to Stage 2 with a consequent increase from a 12 month ECL to a lifetime ECL.
- In Stage 3, reflecting the various customer support mechanisms available, ECL was impacted relatively less than in Stage 1 and Stage 2.
- The portfolio continued to experience cash recoveries after write-off which are reported in other (P&L only items). These benefited the income statement without affecting ECL.
- Write-off occurs once recovery activity with the customer has been concluded and there are no further recoveries expected, but no later than six years after default.

**Capital and risk management**  
**Credit risk – Banking activities continued**  
**Flow statements**

|   | Stage 1                |           | Stage 2                |           | Stage 3                |           | Total                  |           |
|---|------------------------|-----------|------------------------|-----------|------------------------|-----------|------------------------|-----------|
|   | Financial assets<br>£m | ECL<br>£m |
| <b>Ulster Bank Rol - mortgages</b>          |                        |           |                        |           |                        |           |                        |           |
| At 1 January 2020                           | 10,603                 | 11        | 1,084                  | 30        | 1,875                  | 581       | 13,562                 | 622       |
| Currency translation and other adjustments  | 691                    | 1         | 115                    | 4         | 104                    | (7)       | 910                    | (2)       |
| Transfers from Stage 1 to Stage 2           | (1,526)                | (5)       | 1,526                  | 5         | -                      | -         | -                      | -         |
| Transfers from Stage 2 to Stage 1           | 624                    | 11        | (624)                  | (11)      | -                      | -         | -                      | -         |
| Transfers to Stage 3                        | (4)                    | -         | (31)                   | (2)       | 35                     | 2         | -                      | -         |
| Transfers from Stage 3                      | 13                     | -         | 179                    | 12        | (192)                  | (12)      | -                      | -         |
| Net re-measurement of ECL on stage transfer |                        | (10)      |                        | 39        |                        | 6         |                        | 35        |
| Changes in risk parameters (model inputs)   |                        | 8         |                        | 22        |                        | 51        |                        | 81        |
| Other changes in net exposure               | (36)                   | -         | (30)                   | -         | (290)                  | 2         | (356)                  | 2         |
| Other (P&L only items)                      |                        | -         |                        | -         |                        | (11)      |                        | (11)      |
| <b>Income statement (releases)/charges</b>  |                        | (2)       |                        | 61        |                        | 48        |                        | 107       |
| Amounts written-off                         | -                      | -         | (1)                    | (1)       | (157)                  | (157)     | (158)                  | (158)     |
| Unwinding of discount                       |                        | -         |                        | -         |                        | (9)       |                        | (9)       |
| At 30 June 2020                             | 10,365                 | 16        | 2,218                  | 98        | 1,375                  | 457       | 13,958                 | 571       |
| Net carrying amount                         | 10,349                 |           | 2,120                  |           | 918                    |           | 13,387                 |           |
| At 1 January 2019                           | 10,782                 | 11        | 1,394                  | 75        | 2,278                  | 657       | 14,454                 | 743       |
| 2019 movements                              | 223                    | (6)       | (339)                  | (57)      | (92)                   | (37)      | (208)                  | (100)     |
| At 30 June 2019                             | 11,005                 | 5         | 1,055                  | 18        | 2,186                  | 620       | 14,246                 | 643       |
| Net carrying amount                         | 11,000                 |           | 1,037                  |           | 1,566                  |           | 13,603                 |           |

**Key points**

- The increase in ECL in Stage 1 and Stage 2 was primarily driven by the deterioration in the economic outlook as detailed in the Covid-19 – estimating ECL in uncertain times section, coupled with the application of post-model adjustments to fully reflect the deteriorated economic outlook in ECL estimations.
- The updated economics also resulted in a net migration of assets from Stage 1 to Stage 2 with a consequent increase from a 12 month ECL to a lifetime ECL.
- The reduction in ECL in Stage 3 reflected ongoing deleveraging of the Ulster mortgage non-performing portfolio through the execution of two tranches of a portfolio sale.
- In Stage 3, the ECL cost within changes in risk parameters included the forward-looking impact of forecast reductions in house prices and the application of post-model adjustments to fully reflect the deteriorated economic outlook in ECL estimations.
- Write-off generally occurs once the repossessed property has been sold and there is a residual shortfall balance remaining outstanding or when the loan is sold to a third party.

**Capital and risk management**  
**Credit risk – Banking activities continued**  
**Flow statements**

|  | Stage 1                |           | Stage 2                |           | Stage 3                |           | Total                  |           |
|--|------------------------|-----------|------------------------|-----------|------------------------|-----------|------------------------|-----------|
|  | Financial assets<br>£m | ECL<br>£m |
| <b>Commercial Banking - commercial real estate</b> |                        |           |                        |           |                        |           |                        |           |
| At 1 January 2020                                  | 25,556                 | 31        | 2,218                  | 28        | 895                    | 306       | 28,669                 | 365       |
| Currency translation and other adjustments         | 25                     | -         | 3                      | -         | 2                      | -         | 30                     | -         |
| Transfers from Stage 1 to Stage 2                  | (9,216)                | (46)      | 9,216                  | 46        | -                      | -         | -                      | -         |
| Transfers from Stage 2 to Stage 1                  | 893                    | 13        | (893)                  | (13)      | -                      | -         | -                      | -         |
| Transfers to Stage 3                               | (101)                  | -         | (412)                  | (10)      | 513                    | 10        | -                      | -         |
| Transfers from Stage 3                             | 29                     | 3         | 202                    | 12        | (231)                  | (15)      | -                      | -         |
| Net re-measurement of ECL on stage transfer        | -                      | (13)      | -                      | 157       | -                      | 87        | -                      | 231       |
| Changes in risk parameters (model inputs)          | -                      | 91        | -                      | 53        | -                      | 21        | -                      | 165       |
| Other changes in net exposure                      | 2,474                  | 18        | 20                     | 1         | (88)                   | 9         | 2,406                  | 28        |
| Other (P&L only items)                             | -                      | -         | -                      | -         | -                      | -         | -                      | -         |
| <b>Income statement charges</b>                    |                        | 96        |                        | 211       |                        | 117       |                        | 424       |
| Amounts written-off                                | -                      | -         | -                      | -         | (15)                   | (15)      | (15)                   | (15)      |
| Unwinding of discount                              | -                      | -         | -                      | -         | -                      | (2)       | -                      | (2)       |
| At 30 June 2020                                    | 19,660                 | 97        | 10,354                 | 274       | 1,076                  | 401       | 31,090                 | 772       |
| <b>Net carrying amount</b>                         | <b>19,563</b>          |           | <b>10,080</b>          |           | <b>675</b>             |           | <b>30,318</b>          |           |
| At 1 January 2019                                  | 29,180                 | 37        | 1,500                  | 24        | 1,631                  | 459       | 32,311                 | 520       |
| 2019 movements                                     | (11)                   | 1         | 361                    | 4         | (189)                  | (158)     | 162                    | (154)     |
| At 30 June 2019                                    | 29,169                 | 38        | 1,861                  | 28        | 1,442                  | 301       | 32,473                 | 366       |
| <b>Net carrying amount</b>                         | <b>29,131</b>          |           | <b>1,833</b>           |           | <b>1,141</b>           |           | <b>32,107</b>          |           |

**Key points**

- The increase in ECL in Stage 1 and Stage 2 was primarily driven by the deterioration in the economic outlook as detailed in the Covid-19 – estimating ECL in uncertain times section, causing both PDs and LGDs to increase.
- The updated economics also resulted in a migration of assets from Stage 1 to Stage 2 with a consequential increase from a 12 month ECL to a lifetime ECL.
- For flows into Stage 3, defaults have been suppressed reflecting the various government customer support mechanisms available.
- Stage 3 recovery values are beginning to be impacted as market conditions deteriorate, leading to higher ECL charges.
- Other changes in net exposures have increased across Stage 1 and Stage 2 as customers draw down on existing facilities and undertake new lending supported by government schemes.

## Capital and risk management

### Credit risk – Banking activities continued

#### Flow statements

|  | Stage 1                |           | Stage 2                |           | Stage 3                |            | Total                  |            |
|--|------------------------|-----------|------------------------|-----------|------------------------|------------|------------------------|------------|
|  | Financial assets<br>£m | ECL<br>£m | Financial assets<br>£m | ECL<br>£m | Financial assets<br>£m | ECL<br>£m  | Financial assets<br>£m | ECL<br>£m  |
| <b>Commercial Banking - business banking</b> |                        |           |                        |           |                        |            |                        |            |
| At 1 January 2020                            | 6,338                  | 28        | 767                    | 45        | 257                    | 200        | 7,362                  | 273        |
| Transfers from Stage 1 to Stage 2            | (1,312)                | (13)      | 1,312                  | 13        | -                      | -          | -                      | -          |
| Transfers from Stage 2 to Stage 1            | 310                    | 22        | (310)                  | (22)      | -                      | -          | -                      | -          |
| Transfers to Stage 3                         | (12)                   | -         | (78)                   | (16)      | 90                     | 16         | -                      | -          |
| Transfers from Stage 3                       | 6                      | 2         | 18                     | 7         | (24)                   | (9)        | -                      | -          |
| Net re-measurement of ECL on stage transfer  |                        | (21)      |                        | 88        |                        | 32         |                        | 99         |
| Changes in risk parameters (model inputs)    |                        | 9         |                        | (10)      |                        | 11         |                        | 10         |
| Other changes in net exposure                | 3,870                  | 5         | (110)                  | (7)       | (18)                   | (5)        | 3,742                  | (7)        |
| Other (P&L only items)                       |                        | -         |                        | -         |                        | (41)       |                        | (41)       |
| <b>Income statement (releases)/charges</b>   |                        | (7)       |                        | 71        |                        | (3)        |                        | 61         |
| Amounts written-off                          | -                      | -         | -                      | -         | (53)                   | (53)       | (53)                   | (53)       |
| Unwinding of discount                        |                        | -         |                        | -         |                        | (2)        |                        | (2)        |
| <b>At 30 June 2020</b>                       | <b>9,200</b>           | <b>32</b> | <b>1,599</b>           | <b>98</b> | <b>252</b>             | <b>190</b> | <b>11,051</b>          | <b>320</b> |
| <b>Net carrying amount</b>                   | <b>9,168</b>           |           | <b>1,501</b>           |           | <b>62</b>              |            | <b>10,731</b>          |            |
| At 1 January 2019                            | 6,303                  | 22        | 897                    | 43        | 245                    | 163        | 7,445                  | 228        |
| 2019 movements                               | 64                     | (5)       | (56)                   | (9)       | -                      | 24         | 8                      | 10         |
| <b>At 30 June 2019</b>                       | <b>6,367</b>           | <b>17</b> | <b>841</b>             | <b>34</b> | <b>245</b>             | <b>187</b> | <b>7,453</b>           | <b>238</b> |
| <b>Net carrying amount</b>                   | <b>6,350</b>           |           | <b>807</b>             |           | <b>58</b>              |            | <b>7,215</b>           |            |

#### Key points

- The increase in ECL in Stage 1 and Stage 2 was primarily driven by the deterioration in the economic outlook as detailed in the Covid-19 – estimating ECL in uncertain times section, causing both PDs and LGDs to increase.
- The updated economics also resulted in a migration of assets from Stage 1 to Stage 2 with a consequential increase from a 12 month ECL to a lifetime ECL.
- For flows into Stage 3, defaults have been suppressed reflecting the various government customer support mechanisms available.
- Other changes in net exposures have increased in Stage 1 as customers draw down on existing facilities and undertake new lending supported by government schemes.
- 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 and there are no further recoveries expected, but no later than five years after default.

**Capital and risk management**  
**Credit risk – Banking activities continued**  
**Flow statements**

|   | Stage 1                |           | Stage 2                |           | Stage 3                |           | Total                  |           |
|---|------------------------|-----------|------------------------|-----------|------------------------|-----------|------------------------|-----------|
|   | Financial assets<br>£m | ECL<br>£m |
| <b>Commercial Banking - other</b>           |                        |           |                        |           |                        |           |                        |           |
| At 1 January 2020                           | 53,722                 | 94        | 8,788                  | 143       | 1,386                  | 516       | 63,896                 | 753       |
| Currency translation and other adjustments  | 709                    | -         | 154                    | -         | 20                     | 18        | 883                    | 18        |
| Inter-group transfers                       | (116)                  | -         | -                      | -         | -                      | -         | (116)                  | -         |
| Transfers from Stage 1 to Stage 2           | (44,992)               | (193)     | 44,992                 | 193       | -                      | -         | -                      | -         |
| Transfers from Stage 2 to Stage 1           | 4,666                  | 34        | (4,666)                | (34)      | -                      | -         | -                      | -         |
| Transfers to Stage 3                        | (80)                   | -         | (567)                  | (19)      | 647                    | 19        | -                      | -         |
| Transfers from Stage 3                      | 47                     | 13        | 225                    | 19        | (272)                  | (32)      | -                      | -         |
| Net re-measurement of ECL on stage transfer |                        | (37)      |                        | 625       |                        | 117       |                        | 705       |
| Changes in risk parameters (model inputs)   |                        | 133       |                        | 411       |                        | 25        |                        | 569       |
| Other changes in net exposure               | 6,928                  | 43        | (805)                  | 5         | (142)                  | (11)      | 5,981                  | 37        |
| Other (P&L only items)                      |                        | -         |                        | -         |                        | (6)       |                        | (6)       |
| <b>Income statement charges</b>             |                        | 139       |                        | 1,041     |                        | 125       |                        | 1,305     |
| Amounts written-off                         | -                      | -         | -                      | -         | (51)                   | (51)      | (51)                   | (51)      |
| Unwinding of discount                       |                        | -         |                        | -         |                        | (2)       |                        | (2)       |
| At 30 June 2020                             | 20,884                 | 87        | 48,121                 | 1,343     | 1,588                  | 599       | 70,593                 | 2,029     |
| Net carrying amount                         | 20,797                 |           | 46,778                 |           | 990                    |           | 68,565                 |           |
| At 1 January 2019                           | 52,312                 | 71        | 7,893                  | 131       | 845                    | 444       | 61,050                 | 646       |
| 2019 movements                              | 1,310                  | (3)       | (678)                  | (5)       | (99)                   | 118       | 532                    | 111       |
| At 30 June 2019                             | 53,622                 | 68        | 7,215                  | 126       | 746                    | 562       | 61,582                 | 757       |
| Net carrying amount                         | 53,554                 |           | 7,089                  |           | 184                    |           | 60,825                 |           |

**Key points**

- The increase in ECL in Stage 1 and Stage 2 was primarily driven by the deterioration in the economic outlook as detailed in the Covid-19 – estimating ECL in uncertain times section, causing both PDs and LGDs to increase.
- The updated economics also resulted in the migration of assets from Stage 1 to Stage 2 with a consequential increase from a 12 month ECL to a lifetime ECL.
- For flows into Stage 3, defaults have been suppressed reflecting the various government customer support mechanisms available.
- Stage 3 recovery values have decreased as market conditions deteriorate, leading to higher ECL charges.
- Other changes in net exposures increased across Stage 1 and Stage 2 as customers draw down on existing facilities and undertake new borrowings supported by the government schemes.

## Capital and risk management

### Credit risk – Banking activities continued

#### Flow statements

|   | Stage 1                |           | Stage 2                |           | Stage 3                |             | Total                  |            |
|---|------------------------|-----------|------------------------|-----------|------------------------|-------------|------------------------|------------|
|   | Financial assets<br>£m | ECL<br>£m | Financial assets<br>£m | ECL<br>£m | Financial assets<br>£m | ECL<br>£m   | Financial assets<br>£m | ECL<br>£m  |
| <b>NatWest Markets (1)</b>                  |                        |           |                        |           |                        |             |                        |            |
| <b>At 1 January 2020</b>                    | <b>32,892</b>          | <b>10</b> | <b>188</b>             | <b>5</b>  | <b>183</b>             | <b>131</b>  | <b>33,263</b>          | <b>146</b> |
| Currency translation and other adjustments  | 1,345                  | -         | 36                     | (1)       | 13                     | 14          | 1,394                  | 13         |
| Inter-group transfers                       | (774)                  | -         | -                      | -         | -                      | -           | (774)                  | -          |
| Transfers from Stage 1 to Stage 2           | (2,133)                | (6)       | 2,133                  | 6         | -                      | -           | -                      | -          |
| Transfers from Stage 2 to Stage 1           | 62                     | -         | (62)                   | -         | -                      | -           | -                      | -          |
| Net re-measurement of ECL on stage transfer | -                      | -         | -                      | 39        | -                      | -           | -                      | 39         |
| Changes in risk parameters (model inputs)   | -                      | 9         | -                      | 4         | -                      | (9)         | -                      | 4          |
| Other changes in net exposure               | 6,855                  | 5         | 502                    | -         | (10)                   | 4           | 7,347                  | 9          |
| Other (P&L only items)                      | -                      | (4)       | -                      | -         | -                      | (8)         | -                      | (12)       |
| <b>Income statement (releases)/charges</b>  |                        | <b>10</b> |                        | <b>43</b> |                        | <b>(13)</b> |                        | <b>40</b>  |
| Amounts written-off                         | -                      | -         | -                      | -         | (4)                    | (4)         | (4)                    | (4)        |
| Unwinding of discount                       | -                      | -         | -                      | -         | -                      | -           | -                      | -          |
| <b>At 30 June 2020</b>                      | <b>38,247</b>          | <b>18</b> | <b>2,797</b>           | <b>53</b> | <b>182</b>             | <b>136</b>  | <b>41,226</b>          | <b>207</b> |
| <b>Net carrying amount</b>                  | <b>38,229</b>          |           | <b>2,744</b>           |           | <b>46</b>              |             | <b>41,019</b>          |            |
| <b>At 1 January 2019</b>                    | <b>32,758</b>          | <b>7</b>  | <b>732</b>             | <b>14</b> | <b>775</b>             | <b>179</b>  | <b>34,265</b>          | <b>200</b> |
| 2019 movements                              | 1,276                  | 1         | (278)                  | (4)       | (9)                    | (31)        | 989                    | (34)       |
| <b>At 30 June 2019</b>                      | <b>34,034</b>          | <b>8</b>  | <b>454</b>             | <b>10</b> | <b>766</b>             | <b>148</b>  | <b>35,254</b>          | <b>166</b> |
| <b>Net carrying amount</b>                  | <b>34,026</b>          |           | <b>444</b>             |           | <b>618</b>             |             | <b>35,088</b>          |            |

Note:

(1) Reflects the NatWest Markets segment and includes NWM N.V..

#### Key points

- The increase in ECL in Stage 1 and Stage 2 was primarily driven by the deterioration in the economic outlook as detailed in the Covid-19 – estimating ECL in uncertain times section, causing both PDs and LGDs to increase.
- The updated economics also resulted in a migration of assets from Stage 1 to Stage 2 with a consequential increase from a 12 month ECL to a lifetime ECL.
- For flows into Stage 3, defaults have been suppressed reflecting the various government customer support mechanisms available.

## Capital and risk management

### Credit risk – Banking activities continued

#### Stage 2 decomposition – arrears status and contributing factors

The tables below show Stage 2 decomposition for the Personal and Wholesale portfolios.

|  | UK mortgages  |            | Roi mortgages |           | Credit cards |            | Other        |            | Total         |              |
|--|---------------|------------|---------------|-----------|--------------|------------|--------------|------------|---------------|--------------|
|  | Loans<br>£m   | ECL<br>£m  | Loans<br>£m   | ECL<br>£m | Loans<br>£m  | ECL<br>£m  | Loans<br>£m  | ECL<br>£m  | Loans<br>£m   | ECL<br>£m    |
| <b>30 June 2020</b>                              |               |            |               |           |              |            |              |            |               |              |
| <b>Personal</b>                                  |               |            |               |           |              |            |              |            |               |              |
| Currently in arrears (>30 DPD)                   | 532           | 21         | 34            | 3         | 30           | 10         | 102          | 35         | 698           | 69           |
| Currently up-to-date                             | 23,553        | 173        | 2,173         | 95        | 1,291        | 233        | 3,063        | 440        | 30,080        | 941          |
| - PD deterioration                               | 19,089        | 166        | 1,332         | 69        | 859          | 187        | 2,553        | 383        | 23,833        | 805          |
| - Up-to-date, PD persistence                     | 1,017         | 1          | 66            | 2         | 293          | 15         | 256          | 17         | 1,632         | 35           |
| - Other driver (adverse credit, forbearance etc) | 3,447         | 6          | 775           | 24        | 139          | 31         | 254          | 40         | 4,615         | 101          |
| <b>Total Stage 2</b>                             | <b>24,085</b> | <b>194</b> | <b>2,207</b>  | <b>98</b> | <b>1,321</b> | <b>243</b> | <b>3,165</b> | <b>475</b> | <b>30,778</b> | <b>1,010</b> |

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|  |               |           |              |           |              |            |              |            |               |            |
|--|---------------|-----------|--------------|-----------|--------------|------------|--------------|------------|---------------|------------|
| <b>Personal</b>                                  |               |           |              |           |              |            |              |            |               |            |
| Currently in arrears (>30 DPD)                   | 528           | 14        | 21           | 3         | 16           | 6          | 92           | 19         | 657           | 42         |
| Currently up-to-date                             | 9,860         | 73        | 1,056        | 28        | 1,243        | 126        | 2,218        | 234        | 14,377        | 461        |
| - PD deterioration                               | 4,184         | 60        | 208          | 15        | 727          | 92         | 1,482        | 188        | 6,601         | 355        |
| - Up-to-date, PD persistence                     | 1,812         | 5         | 252          | 4         | 422          | 20         | 540          | 29         | 3,026         | 58         |
| - Other driver (adverse credit, forbearance etc) | 3,864         | 8         | 596          | 9         | 94           | 14         | 196          | 17         | 4,750         | 48         |
| <b>Total Stage 2</b>                             | <b>10,388</b> | <b>87</b> | <b>1,077</b> | <b>31</b> | <b>1,259</b> | <b>132</b> | <b>2,310</b> | <b>253</b> | <b>15,034</b> | <b>503</b> |

#### Key points

- The deteriorated economic outlook, as detailed in the Covid-19 – estimating ECL in uncertain times section, including forecast increases in unemployment, resulted in increased account level IFRS 9 PDs. Consequently, compared to the 2019 year-end, a larger proportion of accounts exhibited a SICR causing Stage 2 exposures to increase significantly.
- As expected, ECL coverage was higher in accounts that were more than 30 days past due than those in Stage 2 for other reasons.

|  | Property      |            | Corporate     |              | FI           |           | Other       |           | Total         |              |
|--|---------------|------------|---------------|--------------|--------------|-----------|-------------|-----------|---------------|--------------|
|  | Loans<br>£m   | ECL<br>£m  | Loans<br>£m   | ECL<br>£m    | Loans<br>£m  | ECL<br>£m | Loans<br>£m | ECL<br>£m | Loans<br>£m   | ECL<br>£m    |
| <b>30 June 2020</b>                    |               |            |               |              |              |           |             |           |               |              |
| <b>Wholesale</b>                       |               |            |               |              |              |           |             |           |               |              |
| Currently in arrears (>30 DPD)         | 346           | 7          | 492           | 27           | 75           | 3         | -           | -         | 913           | 37           |
| Currently up-to-date                   | 12,054        | 385        | 49,550        | 1,527        | 3,714        | 66        | 1           | -         | 65,319        | 1,978        |
| - PD deterioration                     | 10,715        | 304        | 47,137        | 1,418        | 3,217        | 38        | 1           | -         | 61,070        | 1,760        |
| - Up-to-date, PD persistence           | 25            | -          | 81            | 1            | 1            | -         | -           | -         | 107           | 1            |
| - Other driver (forbearance, RoCL etc) | 1,314         | 81         | 2,332         | 108          | 496          | 28        | -           | -         | 4,142         | 217          |
| <b>Total Stage 2</b>                   | <b>12,400</b> | <b>392</b> | <b>50,042</b> | <b>1,554</b> | <b>3,789</b> | <b>69</b> | <b>1</b>    | <b>-</b>  | <b>66,232</b> | <b>2,015</b> |

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|  |              |           |              |            |            |          |          |          |               |            |
|--|--------------|-----------|--------------|------------|------------|----------|----------|----------|---------------|------------|
| <b>Wholesale</b>                       |              |           |              |            |            |          |          |          |               |            |
| Currently in arrears (>30 DPD)         | 57           | 2         | 219          | 6          | 7          | -        | -        | -        | 283           | 8          |
| Currently up-to-date                   | 2,523        | 45        | 9,485        | 192        | 539        | 4        | 4        | -        | 12,551        | 241        |
| - PD deterioration                     | 1,386        | 28        | 6,083        | 144        | 368        | 3        | 3        | -        | 7,840         | 175        |
| - Up-to-date, PD persistence           | 45           | 1         | 183          | 5          | 2          | -        | -        | -        | 230           | 6          |
| - Other driver (forbearance, RoCL etc) | 1,092        | 16        | 3,219        | 43         | 169        | 1        | 1        | -        | 4,481         | 60         |
| <b>Total Stage 2</b>                   | <b>2,580</b> | <b>47</b> | <b>9,704</b> | <b>198</b> | <b>546</b> | <b>4</b> | <b>4</b> | <b>-</b> | <b>12,834</b> | <b>249</b> |

#### Key points

- The deteriorated economic outlook, as detailed in the Covid-19 – estimating ECL in uncertain times section, including significant falls in GDP and commercial real estate valuations, resulted in increased IFRS 9 PDs. Consequently, compared to the 2019 year-end, a larger proportion of the exposures exhibited a SICR causing Stage 2 exposures to increase significantly.
- PD deterioration is the main trigger for identifying a SICR and Stage 2 treatment, although there has also been an increase in arrears.
- There was an increase in flows on to the Risk of Credit Loss framework, however, these have been recorded under PD deterioration if this Stage 2 trigger has also been met.

**Capital and risk management**  
**Credit risk – Banking activities continued**  
**Stage 2 decomposition by a significant increase in credit risk trigger**

| 30 June 2020                   | UK mortgages  |            | Rol mortgages |            | Credit cards |            | Other        |            | Total         |            |
|--------------------------------|---------------|------------|---------------|------------|--------------|------------|--------------|------------|---------------|------------|
|                                | £m            | %          | £m            | %          | £m           | %          | £m           | %          | £m            | %          |
| <b>Personal trigger (1)</b>    |               |            |               |            |              |            |              |            |               |            |
| PD movement                    | 19,557        | 81.2       | 1,362         | 61.7       | 889          | 67.2       | 2,635        | 83.3       | 24,443        | 79.5       |
| PD persistence                 | 1,017         | 4.2        | 66            | 3.0        | 293          | 22.2       | 257          | 8.1        | 1,633         | 5.3        |
| Adverse credit bureau recorded |               |            |               |            |              |            |              |            |               |            |
| with credit reference agency   | 2,910         | 12.1       | -             | -          | 51           | 3.9        | 69           | 2.2        | 3,030         | 9.8        |
| Forbearance support provided   | 209           | 0.9        | 2             | 0.1        | -            | -          | 37           | 1.2        | 248           | 0.8        |
| Customers in collections       | 112           | 0.5        | 53            | 2.4        | 4            | 0.3        | 54           | 1.7        | 223           | 0.7        |
| Other reasons (2)              | 228           | 0.9        | 724           | 32.8       | 84           | 6.4        | 109          | 3.4        | 1,145         | 3.7        |
| Days past due >30              | 52            | 0.2        | -             | -          | -            | -          | 4            | 0.1        | 56            | 0.2        |
|                                | <b>24,085</b> | <b>100</b> | <b>2,207</b>  | <b>100</b> | <b>1,321</b> | <b>100</b> | <b>3,165</b> | <b>100</b> | <b>30,778</b> | <b>100</b> |
| <b>31 December 2019</b>        |               |            |               |            |              |            |              |            |               |            |
| <b>Personal trigger (1)</b>    |               |            |               |            |              |            |              |            |               |            |
| PD movement                    | 4,583         | 44.0       | 223           | 20.7       | 742          | 59.0       | 1,538        | 66.6       | 7,086         | 47.1       |
| PD persistence                 | 1,815         | 17.5       | 252           | 23.4       | 422          | 33.5       | 542          | 23.5       | 3,031         | 20.2       |
| Adverse credit bureau recorded |               |            |               |            |              |            |              |            |               |            |
| with credit reference agency   | 3,236         | 31.2       | -             | -          | 59           | 4.7        | 102          | 4.4        | 3,397         | 22.6       |
| Forbearance support provided   | 163           | 1.6        | 3             | 0.3        | -            | -          | 10           | 0.4        | 176           | 1.2        |
| Customers in collections       | 137           | 1.3        | 74            | 6.9        | 3            | 0.2        | 36           | 1.6        | 250           | 1.7        |
| Other reasons (2)              | 339           | 3.3        | 525           | 48.7       | 33           | 2.6        | 56           | 2.4        | 953           | 6.3        |
| Days past due >30              | 115           | 1.1        | -             | -          | -            | -          | 26           | 1.1        | 141           | 0.9        |
|                                | <b>10,388</b> | <b>100</b> | <b>1,077</b>  | <b>100</b> | <b>1,259</b> | <b>100</b> | <b>2,310</b> | <b>100</b> | <b>15,034</b> | <b>100</b> |

For the notes to the table refer to the next page.

**Key points**

- The primary driver of credit deterioration was PD, which including persistence, accounted for the majority of movements into Stage 2. High risk back-stops, for example, forbearance and adverse credit bureau, provide additional valuable discrimination.
- However, with a larger proportion of exposures now triggering PD deterioration following the deteriorated economic outlook, the proportion of accounts triggering high risk backstops alone decreased.

**Capital and risk management**  
**Credit risk – Banking activities continued**  
**Stage 2 decomposition by a significant increase in credit risk trigger**

|                              | Property      |            | Corporate     |            | FI           |            | Other       |            | Total         |            |
|------------------------------|---------------|------------|---------------|------------|--------------|------------|-------------|------------|---------------|------------|
|                              | Loans<br>£m   | ECL<br>%   | Loans<br>£m   | ECL<br>%   | Loans<br>£m  | ECL<br>%   | Loans<br>£m | ECL<br>%   | Loans<br>£m   | ECL<br>%   |
| <b>30 June 2020</b>          |               |            |               |            |              |            |             |            |               |            |
| <b>Wholesale trigger (1)</b> |               |            |               |            |              |            |             |            |               |            |
| PD movement                  | 10,849        | 87.6       | 47,483        | 94.9       | 3,259        | 86.0       | 1           | 100        | 61,592        | 93.0       |
| PD persistence               | 25            | 0.2        | 82            | 0.2        | 1            | -          | -           | -          | 108           | 0.2        |
| Risk of credit loss          | 449           | 3.6        | 1,007         | 2.0        | 211          | 5.6        | -           | -          | 1,667         | 2.5        |
| Forbearance support provided | 17            | 0.1        | 16            | -          | 19           | 0.5        | -           | -          | 52            | 0.1        |
| Customers in collections     | 16            | 0.1        | 63            | 0.1        | -            | -          | -           | -          | 79            | 0.1        |
| Other reasons (3,4)          | 959           | 7.7        | 1,296         | 2.6        | 266          | 7.0        | -           | -          | 2,521         | 3.8        |
| Days past due >30            | 85            | 0.7        | 95            | 0.2        | 33           | 0.9        | -           | -          | 213           | 0.3        |
|                              | <b>12,400</b> | <b>100</b> | <b>50,042</b> | <b>100</b> | <b>3,789</b> | <b>100</b> | <b>1</b>    | <b>100</b> | <b>66,232</b> | <b>100</b> |
| <b>31 December 2019</b>      |               |            |               |            |              |            |             |            |               |            |
| <b>Wholesale trigger (1)</b> |               |            |               |            |              |            |             |            |               |            |
| PD movement                  | 1,416         | 54.8       | 6,129         | 63.1       | 368          | 67.4       | 3           | 75.0       | 7,916         | 61.7       |
| PD persistence               | 45            | 1.7        | 183           | 1.9        | 3            | 0.5        | -           | -          | 231           | 1.8        |
| Risk of credit loss          | 915           | 35.5       | 2,394         | 24.7       | 69           | 12.6       | -           | -          | 3,378         | 26.3       |
| Forbearance support provided | 31            | 1.2        | 140           | 1.4        | 29           | 5.3        | -           | -          | 200           | 1.6        |
| Customers in collections     | 10            | 0.4        | 47            | 0.5        | -            | -          | -           | -          | 57            | 0.4        |
| Other reasons (3,4)          | 146           | 5.7        | 659           | 6.8        | 71           | 13.0       | 1           | 25.0       | 877           | 6.8        |
| Days past due >30            | 17            | 0.7        | 152           | 1.6        | 6            | 1.1        | -           | -          | 175           | 1.4        |
|                              | <b>2,580</b>  | <b>100</b> | <b>9,704</b>  | <b>100</b> | <b>546</b>   | <b>100</b> | <b>4</b>    | <b>100</b> | <b>12,834</b> | <b>100</b> |

Notes:

- The table is prepared on a hierarchical basis from top to bottom, for example, accounts with PD deterioration may also trigger backstop(s) but are only reported under PD deterioration.
- £322 million of Ulster Bank Rol mortgage exposure which did not meet existing SICR criteria have been classified within Stage 2 following a strategic review and are included in other reasons. It includes customers that have accessed payday lending, interest only mortgages past end of term, a small number of mortgage customers on a highly flexible mortgage significantly behind their repayment plan and customers breaching risk appetite thresholds for new business acquisition.
- Includes customers where a PD assessment cannot be undertaken due to missing PDs.
- £703 million of Ulster Bank Rol Wholesale exposure which did not meet existing SICR criteria have been classified within Stage 2 following strategic and sectoral reviews and are included in other reasons.

**Key points**

- PD deterioration continued to be the primary trigger of migration of exposures from Stage 1 to Stage 2. As the economic outlook deteriorated, it now accounts for a higher proportion of the balances migrated to Stage 2.
- Moving exposures on to the Risk of Credit Loss framework remains an important backstop indicator of a SICR.
- The exposures classified under the Stage 2 Risk of Credit Loss framework trigger decreased over the period as more exposures were captured under the PD deterioration Stage 2 trigger.
- NatWest Group continues to appraise its IFRS 9 SICR rules in the context of effectiveness, volatility and industry consistency. The recent PD driven increase in Stage 2 exposures in the Wholesale portfolios highlighted the gradual diminished impact on ECL of the threshold for better quality portfolios under stress, suggesting possible conservatism in the SICR rules for these portfolios. As an illustration, an increase of the de minimus PD threshold to 0.75% in the SICR rules could decrease the Wholesale portfolios Stage 2 exposure by 24% with a two basis point reduction on good book ECL coverage.

**Capital and risk management**  
**Credit risk – Banking activities continued**  
**Stage 3 vintage analysis**

The table below shows estimated vintage analysis of the material Stage 3 portfolios totalling 83% of the Stage 3 loans of £7.0 billion.

|                            | 30 June 2020                  |                           |           | 31 December 2019              |                           |           |
|----------------------------|-------------------------------|---------------------------|-----------|-------------------------------|---------------------------|-----------|
|                            | UK Personal Banking mortgages | Ulster Bank Rol mortgages | Wholesale | UK Personal Banking mortgages | Ulster Bank Rol mortgages | Wholesale |
| Stage 3 loans (£bn)        | 1.3                           | 1.4                       | 3.1       | 1.3                           | 1.9                       | 2.3       |
| Vintage (time in default): |                               |                           |           |                               |                           |           |
| <1 year                    | 33%                           | 5%                        | 46%       | 32%                           | 13%                       | 37%       |
| 1-3 years                  | 26%                           | 18%                       | 15%       | 23%                           | 12%                       | 14%       |
| 3-5 years                  | 10%                           | 23%                       | 9%        | 11%                           | 23%                       | 9%        |
| 5-10 years                 | 23%                           | 41%                       | 30%       | 26%                           | 44%                       | 40%       |
| >10 years                  | 8%                            | 12%                       | -         | 8%                            | 8%                        | -         |
|                            | 100%                          | 100%                      | 100%      | 100%                          | 100%                      | 100%      |

**Key points**

- **Mortgages** – The proportion of the Stage 3 defaulted population who have been in default for over five years reflected NatWest Group's support for customers in financial difficulty. When customers continue to engage constructively with NatWest Group, making regular payments, NatWest Group continues to support them. NatWest Group's provisioning approach retains customers in Stage 3 for a life-time loss provisioning calculation, even when their arrears status reverts to below 90 days past due.
- **Wholesale** – The value of Stage 3 loans that have been impaired for > 5 years was mainly due to customers being in a protracted formal insolvency process or subject to litigation or a complaints process.

**Asset quality**

The table below shows asset quality bands of gross loans and ECL, by stage, for the Personal portfolio.

|                          | Gross loans   |               |               |             | ECL provisions |               |               |             | ECL provisions coverage |              |              |            |
|--------------------------|---------------|---------------|---------------|-------------|----------------|---------------|---------------|-------------|-------------------------|--------------|--------------|------------|
|                          | Stage 1<br>£m | Stage 2<br>£m | Stage 3<br>£m | Total<br>£m | Stage 1<br>£m  | Stage 2<br>£m | Stage 3<br>£m | Total<br>£m | Stage 1<br>%            | Stage 2<br>% | Stage 3<br>% | Total<br>% |
| <b>30 June 2020</b>      |               |               |               |             |                |               |               |             |                         |              |              |            |
| <b>UK mortgages</b>      |               |               |               |             |                |               |               |             |                         |              |              |            |
| AQ1-AQ4                  | 92,865        | 4,672         | -             | 97,537      | 10             | 14            | -             | 24          | 0.01                    | 0.30         | -            | 0.02       |
| AQ5-AQ8                  | 49,355        | 18,440        | -             | 67,795      | 7              | 138           | -             | 145         | 0.01                    | 0.75         | -            | 0.21       |
| AQ9                      | 325           | 973           | -             | 1,298       | -              | 42            | -             | 42          | -                       | 4.32         | -            | 3.24       |
| AQ10                     | -             | -             | 1,533         | 1,533       | -              | -             | 250           | 250         | -                       | -            | 16.31        | 16.31      |
|                          | 142,545       | 24,085        | 1,533         | 168,163     | 17             | 194           | 250           | 461         | 0.01                    | 0.81         | 16.31        | 0.27       |
| <b>Rol mortgages (1)</b> |               |               |               |             |                |               |               |             |                         |              |              |            |
| AQ1-AQ4                  | 7,820         | 964           | -             | 8,784       | 13             | 37            | -             | 50          | 0.17                    | 3.84         | -            | 0.57       |
| AQ5-AQ8                  | 2,576         | 927           | -             | 3,503       | 4              | 45            | -             | 49          | 0.16                    | 4.85         | -            | 1.40       |
| AQ9                      | 6             | 316           | -             | 322         | -              | 16            | -             | 16          | -                       | 5.06         | -            | 4.97       |
| AQ10                     | -             | -             | 1,370         | 1,370       | -              | -             | 456           | 456         | -                       | -            | 33.28        | 33.28      |
|                          | 10,402        | 2,207         | 1,370         | 13,979      | 17             | 98            | 456           | 571         | 0.16                    | 4.44         | 33.28        | 4.08       |
| <b>Credit cards</b>      |               |               |               |             |                |               |               |             |                         |              |              |            |
| AQ1-AQ4                  | 35            | 7             | -             | 42          | 2              | 1             | -             | 3           | 5.71                    | 14.29        | -            | 7.14       |
| AQ5-AQ8                  | 2,350         | 1,260         | -             | 3,610       | 45             | 226           | -             | 271         | 1.91                    | 17.94        | -            | 7.51       |
| AQ9                      | 2             | 54            | -             | 56          | -              | 16            | -             | 16          | -                       | 29.63        | -            | 28.57      |
| AQ10                     | -             | -             | 110           | 110         | -              | -             | 86            | 86          | -                       | -            | 78.18        | 78.18      |
|                          | 2,387         | 1,321         | 110           | 3,818       | 47             | 243           | 86            | 376         | 1.97                    | 18.40        | 78.18        | 9.85       |
| <b>Other personal</b>    |               |               |               |             |                |               |               |             |                         |              |              |            |
| AQ1-AQ4                  | 883           | 48            | -             | 931         | 7              | 11            | -             | 18          | 0.79                    | 22.92        | -            | 1.93       |
| AQ5-AQ8                  | 5,148         | 2,791         | -             | 7,939       | 87             | 357           | -             | 444         | 1.69                    | 12.79        | -            | 5.59       |
| AQ9                      | 67            | 326           | -             | 393         | 3              | 107           | -             | 110         | 4.48                    | 32.82        | -            | 27.99      |
| AQ10                     | -             | -             | 734           | 734         | -              | -             | 612           | 612         | -                       | -            | 83.38        | 83.38      |
|                          | 6,098         | 3,165         | 734           | 9,997       | 97             | 475           | 612           | 1,184       | 1.59                    | 15.01        | 83.38        | 11.84      |
| <b>Total personal</b>    |               |               |               |             |                |               |               |             |                         |              |              |            |
| AQ1-AQ4                  | 101,603       | 5,691         | -             | 107,294     | 32             | 63            | -             | 95          | 0.03                    | 1.11         | -            | 0.09       |
| AQ5-AQ8                  | 59,429        | 23,418        | -             | 82,847      | 143            | 766           | -             | 909         | 0.24                    | 3.27         | -            | 1.10       |
| AQ9                      | 400           | 1,669         | -             | 2,069       | 3              | 181           | -             | 184         | 0.75                    | 10.84        | -            | 8.89       |
| AQ10                     | -             | -             | 3,747         | 3,747       | -              | -             | 1,404         | 1,404       | -                       | -            | 37.47        | 37.47      |
|                          | 161,432       | 30,778        | 3,747         | 195,957     | 178            | 1,010         | 1,404         | 2,592       | 0.11                    | 3.28         | 37.47        | 1.32       |

Note:

- (1) AQ10 includes £0.5 billion (31 December 2019 – £0.6 billion) of Rol mortgages which are not currently considered defaulted for capital calculation purposes for Rol but are included in Stage 3.

**Capital and risk management**  
**Credit risk – Banking activities continued**  
**Asset quality**

| 31 December 2019         | Gross loans   |               |               |             | ECL provisions |               |               |             | ECL provisions coverage |              |              |            |
|--------------------------|---------------|---------------|---------------|-------------|----------------|---------------|---------------|-------------|-------------------------|--------------|--------------|------------|
|                          | Stage 1<br>£m | Stage 2<br>£m | Stage 3<br>£m | Total<br>£m | Stage 1<br>£m  | Stage 2<br>£m | Stage 3<br>£m | Total<br>£m | Stage 1<br>%            | Stage 2<br>% | Stage 3<br>% | Total<br>% |
| <b>UK mortgages</b>      |               |               |               |             |                |               |               |             |                         |              |              |            |
| AQ1-AQ4                  | 90,494        | 2,579         | -             | 93,073      | 6              | 7             | -             | 13          | 0.01                    | 0.27         | -            | 0.01       |
| AQ5-AQ8                  | 58,039        | 6,939         | -             | 64,978      | 8              | 55            | -             | 63          | 0.01                    | 0.79         | -            | 0.10       |
| AQ9                      | 96            | 870           | -             | 966         | -              | 25            | -             | 25          | -                       | 2.87         | -            | 2.59       |
| AQ10                     | -             | -             | 1,414         | 1,414       | -              | -             | 240           | 240         | -                       | -            | 16.97        | 16.97      |
|                          | 148,629       | 10,388        | 1,414         | 160,431     | 14             | 87            | 240           | 341         | 0.01                    | 0.84         | 16.97        | 0.21       |
| <b>Rol mortgages (1)</b> |               |               |               |             |                |               |               |             |                         |              |              |            |
| AQ1-AQ4                  | 6,215         | 212           | -             | 6,427       | 4              | 4             | -             | 8           | 0.06                    | 1.89         | -            | 0.12       |
| AQ5-AQ8                  | 4,416         | 615           | -             | 5,031       | 7              | 19            | -             | 26          | 0.16                    | 3.09         | -            | 0.52       |
| AQ9                      | 1             | 250           | -             | 251         | -              | 8             | -             | 8           | -                       | 3.20         | -            | 3.19       |
| AQ10                     | -             | -             | 1,863         | 1,863       | -              | -             | 581           | 581         | -                       | -            | 31.19        | 31.19      |
|                          | 10,632        | 1,077         | 1,863         | 13,572      | 11             | 31            | 581           | 623         | 0.10                    | 2.88         | 31.19        | 4.59       |
| <b>Credit cards</b>      |               |               |               |             |                |               |               |             |                         |              |              |            |
| AQ1-AQ4                  | 364           | 11            | -             | 375         | 1              | 1             | -             | 2           | 0.27                    | 9.09         | -            | 0.53       |
| AQ5-AQ8                  | 2,734         | 1,187         | -             | 3,921       | 39             | 112           | -             | 151         | 1.43                    | 9.44         | -            | 3.85       |
| AQ9                      | 5             | 61            | -             | 66          | -              | 19            | -             | 19          | -                       | 31.15        | -            | 28.79      |
| AQ10                     | -             | -             | 116           | 116         | -              | -             | 89            | 89          | -                       | -            | 76.72        | 76.72      |
|                          | 3,103         | 1,259         | 116           | 4,478       | 40             | 132           | 89            | 261         | 1.29                    | 10.48        | 76.72        | 5.83       |
| <b>Other personal</b>    |               |               |               |             |                |               |               |             |                         |              |              |            |
| AQ1-AQ4                  | 1,231         | 59            | -             | 1,290       | 4              | 5             | -             | 9           | 0.32                    | 8.47         | -            | 0.70       |
| AQ5-AQ8                  | 6,127         | 2,045         | -             | 8,172       | 59             | 195           | -             | 254         | 0.96                    | 9.54         | -            | 3.11       |
| AQ9                      | 78            | 206           | -             | 284         | 2              | 53            | -             | 55          | 2.56                    | 25.73        | -            | 19.37      |
| AQ10                     | -             | -             | 643           | 643         | -              | -             | 539           | 539         | -                       | -            | 83.83        | 83.83      |
|                          | 7,436         | 2,310         | 643           | 10,389      | 65             | 253           | 539           | 857         | 0.87                    | 10.95        | 83.83        | 8.25       |
| <b>Total personal</b>    |               |               |               |             |                |               |               |             |                         |              |              |            |
| AQ1-AQ4                  | 98,304        | 2,861         | -             | 101,165     | 15             | 17            | -             | 32          | 0.02                    | 0.59         | -            | 0.03       |
| AQ5-AQ8                  | 71,316        | 10,786        | -             | 82,102      | 113            | 381           | -             | 494         | 0.16                    | 3.53         | -            | 0.60       |
| AQ9                      | 180           | 1,387         | -             | 1,567       | 2              | 105           | -             | 107         | 1.11                    | 7.57         | -            | 6.83       |
| AQ10                     | -             | -             | 4,036         | 4,036       | -              | -             | 1,449         | 1,449       | -                       | -            | 35.90        | 35.90      |
|                          | 169,800       | 15,034        | 4,036         | 188,870     | 130            | 503           | 1,449         | 2,082       | 0.08                    | 3.35         | 35.90        | 1.10       |

Note:

(1) AQ10 includes £0.5 billion (31 December 2019 – £0.6 billion) of Rol mortgages which are not currently considered defaulted for capital calculation purposes for Rol but are included in Stage 3.

**Key points**

- In the Personal portfolios, the asset quality distribution deteriorated slightly in credit cards and other personal since the year-end, with the Basel II point-in-time PDs yet to reflect the expected credit deterioration.
- The majority of exposures were in AQ1-AQ4, with a significant proportion in AQ5-AQ8. As expected, mortgage exposures have a higher proportion in AQ1-AQ4 than unsecured borrowing.
- The relatively high level of Stage 3 impaired assets (AQ10) in Rol mortgages reflected their legacy mortgage portfolio and the residual effects from the financial crisis.
- In other personal, the relatively high level of exposures in AQ10 reflected that impaired assets can be held on the balance sheet, with commensurate ECL provision for up to six years after default.
- ECL provisions coverage shows the expected trend with increased coverage in the poorer asset quality bands, and also by stage.

**Capital and risk management**  
**Credit risk – Banking activities continued**  
**Asset quality**

The table below shows asset quality bands of gross loans and ECL, by stage, for the Wholesale portfolio.

| 30 June 2020                  | Gross loans   |               |               |             | ECL provisions |               |               |             | ECL provisions coverage |              |              |            |
|-------------------------------|---------------|---------------|---------------|-------------|----------------|---------------|---------------|-------------|-------------------------|--------------|--------------|------------|
|                               | Stage 1<br>£m | Stage 2<br>£m | Stage 3<br>£m | Total<br>£m | Stage 1<br>£m  | Stage 2<br>£m | Stage 3<br>£m | Total<br>£m | Stage 1<br>%            | Stage 2<br>% | Stage 3<br>% | Total<br>% |
| <b>Property</b>               |               |               |               |             |                |               |               |             |                         |              |              |            |
| AQ1-AQ4                       | 14,066        | 3,052         | -             | 17,118      | 16             | 56            | -             | 72          | 0.11                    | 1.83         | -            | 0.42       |
| AQ5-AQ8                       | 12,100        | 9,169         | -             | 21,269      | 110            | 320           | -             | 430         | 0.91                    | 3.49         | -            | 2.02       |
| AQ9                           | 616           | 179           | -             | 795         | -              | 16            | -             | 16          | -                       | 8.94         | -            | 2.01       |
| AQ10                          | -             | -             | 1,259         | 1,259       | -              | -             | 513           | 513         | -                       | -            | 40.75        | 40.75      |
|                               | 26,782        | 12,400        | 1,259         | 40,441      | 126            | 392           | 513           | 1,031       | 0.47                    | 3.16         | 40.75        | 2.55       |
| <b>Corporate</b>              |               |               |               |             |                |               |               |             |                         |              |              |            |
| AQ1-AQ4                       | 9,419         | 15,479        | -             | 24,898      | 21             | 155           | -             | 176         | 0.22                    | 1.00         | -            | 0.71       |
| AQ5-AQ8                       | 18,094        | 34,000        | -             | 52,094      | 111            | 1,350         | -             | 1,461       | 0.61                    | 3.97         | -            | 2.80       |
| AQ9                           | 2,148         | 563           | -             | 2,711       | 1              | 49            | -             | 50          | 0.05                    | 8.70         | -            | 1.84       |
| AQ10                          | -             | -             | 2,012         | 2,012       | -              | -             | 938           | 938         | -                       | -            | 46.62        | 46.62      |
|                               | 29,661        | 50,042        | 2,012         | 81,715      | 133            | 1,554         | 938           | 2,625       | 0.45                    | 3.11         | 46.62        | 3.21       |
| <b>Financial institutions</b> |               |               |               |             |                |               |               |             |                         |              |              |            |
| AQ1-AQ4                       | 34,532        | 2,342         | -             | 36,874      | 13             | 12            | -             | 25          | 0.04                    | 0.51         | -            | 0.07       |
| AQ5-AQ8                       | 4,590         | 1,440         | -             | 6,030       | 9              | 57            | -             | 66          | 0.20                    | 3.96         | -            | 1.09       |
| AQ9                           | 11            | 7             | -             | 18          | -              | -             | -             | -           | -                       | -            | -            | -          |
| AQ10                          | -             | -             | 10            | 10          | -              | -             | 5             | 5           | -                       | -            | 50.00        | 50.00      |
|                               | 39,133        | 3,789         | 10            | 42,932      | 22             | 69            | 5             | 96          | 0.06                    | 1.82         | 50.00        | 0.22       |
| <b>Sovereign</b>              |               |               |               |             |                |               |               |             |                         |              |              |            |
| AQ1-AQ4                       | 9,274         | -             | -             | 9,274       | 9              | -             | -             | 9           | 0.10                    | -            | -            | 0.10       |
| AQ5-AQ8                       | 157           | 1             | -             | 158         | 1              | -             | -             | 1           | 0.64                    | -            | -            | 0.63       |
| AQ 9                          | 5             | -             | -             | 5           | -              | -             | -             | -           | -                       | -            | -            | -          |
| AQ10                          | -             | -             | 6             | 6           | -              | -             | -             | -           | -                       | -            | -            | -          |
|                               | 9,436         | 1             | 6             | 9,443       | 10             | -             | -             | 10          | 0.11                    | -            | -            | 0.11       |
| <b>Total</b>                  |               |               |               |             |                |               |               |             |                         |              |              |            |
| AQ1-AQ4                       | 67,291        | 20,873        | -             | 88,164      | 59             | 223           | -             | 282         | 0.09                    | 1.07         | -            | 0.32       |
| AQ5-AQ8                       | 34,941        | 44,610        | -             | 79,551      | 231            | 1,727         | -             | 1,958       | 0.66                    | 3.87         | -            | 2.46       |
| AQ9                           | 2,780         | 749           | -             | 3,529       | 1              | 65            | -             | 66          | 0.04                    | 8.68         | -            | 1.87       |
| AQ10                          | -             | -             | 3,287         | 3,287       | -              | -             | 1,456         | 1,456       | -                       | -            | 44.30        | 44.30      |
|                               | 105,012       | 66,232        | 3,287         | 174,531     | 291            | 2,015         | 1,456         | 3,762       | 0.28                    | 3.04         | 44.30        | 2.16       |

**Capital and risk management**  
**Credit risk – Banking activities continued**  
**Asset quality**

|                               | Gross loans |         |         |         | ECL provisions |         |         |       | ECL provisions coverage |         |         |       |
|-------------------------------|-------------|---------|---------|---------|----------------|---------|---------|-------|-------------------------|---------|---------|-------|
|                               | Stage 1     | Stage 2 | Stage 3 | Total   | Stage 1        | Stage 2 | Stage 3 | Total | Stage 1                 | Stage 2 | Stage 3 | Total |
| 31 December 2019              | £m          | £m      | £m      | £m      | £m             | £m      | £m      | £m    | %                       | %       | %       | %     |
| <b>Property</b>               |             |         |         |         |                |         |         |       |                         |         |         |       |
| AQ1-AQ4                       | 15,590      | 413     | -       | 16,003  | 7              | 6       | -       | 13    | 0.04                    | 1.45    | -       | 0.08  |
| AQ5-AQ8                       | 17,268      | 2,115   | -       | 19,383  | 38             | 36      | -       | 74    | 0.22                    | 1.70    | -       | 0.38  |
| AQ9                           | 38          | 52      | -       | 90      | -              | 5       | -       | 5     | -                       | 9.62    | -       | 5.56  |
| AQ10                          | -           | -       | 895     | 895     | -              | -       | 402     | 402   | -                       | -       | 44.92   | 44.92 |
|                               | 32,896      | 2,580   | 895     | 36,371  | 45             | 47      | 402     | 494   | 0.14                    | 1.82    | 44.92   | 1.36  |
| <b>Corporate</b>              |             |         |         |         |                |         |         |       |                         |         |         |       |
| AQ1-AQ4                       | 22,373      | 616     | -       | 22,989  | 12             | 11      | -       | 23    | 0.05                    | 1.79    | -       | 0.10  |
| AQ5-AQ8                       | 37,133      | 8,803   | -       | 45,936  | 111            | 169     | -       | 280   | 0.30                    | 1.92    | -       | 0.61  |
| AQ9                           | 183         | 285     | -       | 468     | 1              | 18      | -       | 19    | 0.55                    | 6.32    | -       | 4.06  |
| AQ10                          | -           | -       | 1,649   | 1,649   | -              | -       | 859     | 859   | -                       | -       | 52.09   | 52.09 |
|                               | 59,689      | 9,704   | 1,649   | 71,042  | 124            | 198     | 859     | 1,181 | 0.21                    | 2.04    | 52.09   | 1.66  |
| <b>Financial institutions</b> |             |         |         |         |                |         |         |       |                         |         |         |       |
| AQ1-AQ4                       | 32,297      | 225     | -       | 32,522  | 7              | 1       | -       | 8     | 0.02                    | 0.44    | -       | 0.02  |
| AQ5-AQ8                       | 3,406       | 319     | -       | 3,725   | 9              | 2       | -       | 11    | 0.26                    | 0.63    | -       | 0.30  |
| AQ9                           | 4           | 2       | -       | 6       | -              | 1       | -       | 1     | -                       | 50.00   | -       | 16.67 |
| AQ10                          | -           | -       | 13      | 13      | -              | -       | 8       | 8     | -                       | -       | 61.54   | 61.54 |
|                               | 35,707      | 546     | 13      | 36,266  | 16             | 4       | 8       | 28    | 0.04                    | 0.73    | 61.54   | 0.08  |
| <b>Sovereign</b>              |             |         |         |         |                |         |         |       |                         |         |         |       |
| AQ1-AQ4                       | 7,268       | 4       | -       | 7,272   | 7              | -       | -       | 7     | 0.10                    | -       | -       | 0.10  |
| AQ5-AQ8                       | 142         | -       | -       | 142     | -              | -       | -       | -     | -                       | -       | -       | -     |
| AQ10                          | -           | -       | 5       | 5       | -              | -       | -       | -     | -                       | -       | -       | -     |
|                               | 7,410       | 4       | 5       | 7,419   | 7              | -       | -       | 7     | 0.09                    | -       | -       | 0.09  |
| <b>Total</b>                  |             |         |         |         |                |         |         |       |                         |         |         |       |
| AQ1-AQ4                       | 77,528      | 1,258   | -       | 78,786  | 33             | 18      | -       | 51    | 0.04                    | 1.43    | -       | 0.06  |
| AQ5-AQ8                       | 57,949      | 11,237  | -       | 69,186  | 158            | 207     | -       | 365   | 0.27                    | 1.84    | -       | 0.53  |
| AQ9                           | 225         | 339     | -       | 564     | 1              | 24      | -       | 25    | 0.44                    | 7.08    | -       | 4.43  |
| AQ10                          | -           | -       | 2,562   | 2,562   | -              | -       | 1,269   | 1,269 | -                       | -       | 49.53   | 49.53 |
|                               | 135,702     | 12,834  | 2,562   | 151,098 | 192            | 249     | 1,269   | 1,710 | 0.14                    | 1.94    | 49.53   | 1.13  |

**Key points**

- Across the Wholesale portfolio, the asset quality band distribution differed, reflecting the diverse nature of the sectors, however, asset quality deterioration was observed across most sectors in H1 2020 as the impacts of Covid-19 affected customers' operations and markets.
- Within the Wholesale portfolio, customer credit grades are being reassessed as and when a request for financing is made, a scheduled customer credit review is undertaken or a material event specific to that customer occurs.
- As noted above, a request for support using one of the government-backed Covid-19 support schemes is not itself a reason for a customer's credit grade to be amended.
- The magnitude of credit migration in Wholesale was influenced by Covid-19 specific guidance on credit grading for customers in place during Q2 2020. NatWest Group established this guidance to provide consistency and fair outcomes for these customers, whilst appropriately reflecting the economic outlook at that time. Large or complex customers were graded using financial forecasts, incorporating both the impact of Covid-19, and the length of the time to return to within credit appetite metrics.
- All other customers who were not subject to any wider SICR triggers and who were assessed as having the ability in the medium-term post-crisis to be viable and meet credit appetite metrics were graded using audited accounts.
- NatWest Group identified those customers for whom additional borrowing would require remedial action to return to within risk appetite over the medium term, and customers who were exhibiting signs of financial stress before the Covid-19 crisis. These customers were graded with reference to the impact Covid-19 had on their business.
- Tailored guidance applies to financial institutions and, where appropriate, specialist credit grading models.
- ECL provisions coverage shows the expected trend with increased coverage in the poorer asset quality bands, and also by stage.
- The relatively low provision coverage for Stage 3 loans in the property sector reflected the secured nature of the exposures.

**Capital and risk management**  
**Credit risk – Trading activities**

This section details the credit risk profile of NatWest Group's trading activities.

**Securities financing transactions and collateral**

The table below shows securities financing transactions in NatWest Markets and Treasury. Balance sheet captions include balances held at all classifications under IFRS 9.

|  | Reverse repos |                                  |  | Repos       |                                  |  |
|--|---------------|----------------------------------|--|-------------|----------------------------------|--|
|  | Total<br>£m   | Of which:<br>can be offset<br>£m | Outside<br>netting<br>arrangements<br>£m | Total<br>£m | Of which:<br>can be offset<br>£m | Outside<br>netting<br>arrangements<br>£m |
| <b>30 June 2020</b>                            |               |                                  |  |             |                                  |  |
| Gross  | 80,186        | 79,972                           | 214                                      | 68,927      | 66,816                           | 2,111                                    |
| IFRS offset                                    | (43,196)      | (43,196)                         | -  | (43,196)    | (43,196)                         | -  |
| Carrying value                                 | 36,990        | 36,776                           | 214                                      | 25,731      | 23,620                           | 2,111                                    |
| Master netting arrangements                    | (321)         | (321)                            | -  | (321)       | (321)                            | -  |
| Securities collateral                          | (33,982)      | (33,982)                         | -  | (23,299)    | (23,299)                         | -  |
| Potential for offset not recognised under IFRS | (34,303)      | (34,303)                         | -  | (23,620)    | (23,620)                         | -  |
| Net  | 2,687         | 2,473                            | 214                                      | 2,111       | -                                | 2,111                                    |
| <b>31 December 2019</b>                        |               |                                  |  |             |                                  |  |
| Gross  | 74,156        | 73,348                           | 808                                      | 71,494      | 69,020                           | 2,474                                    |
| IFRS offset                                    | (39,247)      | (39,247)                         | -  | (39,247)    | (39,247)                         | -  |
| Carrying value                                 | 34,909        | 34,101                           | 808                                      | 32,247      | 29,773                           | 2,474                                    |
| Master netting arrangements                    | (562)         | (562)                            | -  | (562)       | (562)                            | -  |
| Securities collateral                          | (33,178)      | (33,178)                         | -  | (29,211)    | (29,211)                         | -  |
| Potential for offset not recognised under IFRS | (33,740)      | (33,740)                         | -  | (29,773)    | (29,773)                         | -  |
| Net  | 1,169         | 361                              | 808                                      | 2,474       | -                                | 2,474                                    |

## Capital and risk management

### Credit risk – Trading activities continued

#### Derivatives

The table below shows derivatives by type of contract. The master netting agreements and collateral shown do not result in a net presentation on the balance sheet under IFRS 9. A significant proportion (more than 90%) of the derivatives relate to trading activities in NatWest Markets. The table also includes hedging derivatives in Treasury.

|  | 30 June 2020 |              |              |              |               | 31 December 2019 |                |          |           |             |
|--|--------------|--------------|--------------|--------------|---------------|------------------|----------------|----------|-----------|-------------|
|  | Notional     |              |              |              | Total         | Assets           | Liabilities    | Notional | Assets    | Liabilities |
|  | GBP          | USD          | Euro         | Other        |               |                  |                |          |           |             |
| Gross exposure   |              |              |              |              |               | 195,492          | 192,888        |          | 160,942   | 158,603     |
| IFRS offset  |              |              |              |              |               | (12,073)         | (13,029)       |          | (10,913)  | (11,724)    |
| <b>Carrying value</b>                                      | <b>3,929</b> | <b>5,042</b> | <b>5,931</b> | <b>1,951</b> | <b>16,853</b> | <b>183,419</b>   | <b>179,859</b> | 15,063   | 150,029   | 146,879     |
| Of which:  |              |              |              |              |               |                  |                |          |           |             |
| <b>Interest rate (1)</b>                                   |              |              |              |              |               |                  |                |          |           |             |
| Interest rate swaps  |              |              |              |              |               | 112,520          | 106,842        |          | 89,646    | 86,123      |
| Options purchased  |              |              |              |              |               | 26,614           | -              |          | 15,300    | -           |
| Options written  |              |              |              |              |               | -                | 26,463         |          | -         | 13,198      |
| Futures and forwards                                       |              |              |              |              |               | 3                | 3              |          | 11        | 10          |
| <b>Total</b>   | <b>3,560</b> | <b>3,428</b> | <b>5,312</b> | <b>905</b>   | <b>13,205</b> | <b>139,137</b>   | <b>133,308</b> | 11,293   | 104,957   | 99,331      |
| <b>Exchange rate</b>                                       |              |              |              |              |               |                  |                |          |           |             |
| Spot, forwards and futures                                 |              |              |              |              |               | 25,169           | 25,250         |          | 30,348    | 30,728      |
| Currency swaps   |              |              |              |              |               | 12,442           | 13,894         |          | 8,795     | 10,296      |
| Options purchased  |              |              |              |              |               | 6,475            | -              |          | 5,649     | -           |
| Options written  |              |              |              |              |               | -                | 7,019          |          | -         | 6,117       |
| <b>Total</b>   | <b>367</b>   | <b>1,607</b> | <b>610</b>   | <b>1,046</b> | <b>3,630</b>  | <b>44,086</b>    | <b>46,163</b>  | 3,750    | 44,792    | 47,141      |
| Credit   | 2            | 5            | 9            | -            | 16            | 177              | 370            | 17       | 280       | 359         |
| Equity and commodity                                       | -            | 2            | -            | -            | 2             | 19               | 18             | 3        | -         | 48          |
| <b>Carrying value</b>                                      |              |              |              |              | <b>16,853</b> | <b>183,419</b>   | <b>179,859</b> | 15,063   | 150,029   | 146,879     |
| Counterparty mark-to-market netting                        |              |              |              |              |               | (150,183)        | (150,183)      |          | (122,697) | (122,697)   |
| Cash collateral  |              |              |              |              |               | (22,739)         | (20,306)       |          | (18,685)  | (17,296)    |
| Securities collateral                                      |              |              |              |              |               | (5,654)          | (2,966)        |          | (4,292)   | (1,276)     |
| <b>Net exposure</b>  |              |              |              |              |               | <b>4,843</b>     | <b>6,404</b>   |          | 4,355     | 5,610       |
| Banks (2)  |              |              |              |              |               | 296              | 686            |          | 621       | 857         |
| Other financial institutions (3)                           |              |              |              |              |               | 1,549            | 3,884          |          | 1,020     | 4,088       |
| Corporate (4)  |              |              |              |              |               | 2,783            | 1,721          |          | 2,452     | 639         |
| Government (5)   |              |              |              |              |               | 215              | 113            |          | 262       | 26          |
| <b>Net exposure</b>  |              |              |              |              |               | <b>4,843</b>     | <b>6,404</b>   |          | 4,355     | 5,610       |
| UK   |              |              |              |              |               | 3,156            | 3,971          |          | 2,052     | 3,153       |
| Europe   |              |              |              |              |               | 1,023            | 1,537          |          | 1,393     | 1,898       |
| US   |              |              |              |              |               | 315              | 599            |          | 428       | 331         |
| RoW  |              |              |              |              |               | 349              | 297            |          | 482       | 228         |
| <b>Net exposure</b>  |              |              |              |              |               | <b>4,843</b>     | <b>6,404</b>   |          | 4,355     | 5,610       |
| <b>Asset quality of uncollateralised derivative assets</b> |              |              |              |              |               |                  |                |          |           |             |
| AQ1-AQ4  |              |              |              |              |               | 3,706            |                |          | 3,361     |             |
| AQ5-AQ8  |              |              |              |              |               | 981              |                |          | 972       |             |
| AQ9-AQ10   |              |              |              |              |               | 156              |                |          | 22        |             |
| <b>Net exposure</b>  |              |              |              |              |               | <b>4,843</b>     |                |          | 4,355     |             |

#### Notes:

- (1) The notional amount of interest rate derivatives included £9,263 billion (31 December 2019 – £7,090 billion) in respect of contracts cleared through central clearing counterparties.
- (2) Transactions with certain counterparties with whom NatWest Group has netting arrangements but collateral is not posted on a daily basis; certain transactions with specific terms that may not fall within netting and collateral arrangements; derivative positions in certain jurisdictions for example China where the collateral agreements are not deemed to be legally enforceable.
- (3) Transactions with securitisation vehicles and funds where collateral posting is contingent on NatWest Group's external rating.
- (4) Mainly large corporates with whom NatWest Group may have netting arrangements in place, but operational capability does not support collateral posting.
- (5) Sovereigns and supranational entities with one-way collateral agreements in their favour.

## Capital and risk management

### Credit risk – Trading activities continued

#### Debt securities

The table below shows debt securities held at mandatory fair value through profit or loss by issuer as well as ratings based on the lowest of Standard & Poor's, Moody's and Fitch. A significant proportion (more than 95%) of these positions are trading securities in NatWest Markets.

|                         | Central and local government |              |               | Financial institutions<br>£m | Corporate<br>£m | Total<br>£m   |
|-------------------------|------------------------------|--------------|---------------|------------------------------|-----------------|---------------|
|                         | UK<br>£m                     | US<br>£m     | Other<br>£m   |                              |                 |               |
| <b>30 June 2020</b>     |                              |              |               |                              |                 |               |
| AAA                     | -                            | -            | 2,265         | 934                          | 3               | 3,202         |
| AA to AA+               | -                            | 4,570        | 3,377         | 678                          | 52              | 8,677         |
| A to AA-                | 4,515                        | -            | 1,608         | 345                          | 85              | 6,553         |
| BBB- to A-              | -                            | -            | 4,773         | 625                          | 1,064           | 6,462         |
| Non-investment grade    | -                            | -            | 58            | 149                          | 90              | 297           |
| Unrated                 | -                            | -            | -             | 328                          | 43              | 371           |
| <b>Total</b>            | <b>4,515</b>                 | <b>4,570</b> | <b>12,081</b> | <b>3,059</b>                 | <b>1,337</b>    | <b>25,562</b> |
| Short positions         | (4,210)                      | (1,801)      | (12,883)      | (1,442)                      | (122)           | (20,458)      |
| <b>31 December 2019</b> |                              |              |               |                              |                 |               |
| AAA                     | -                            | -            | 2,197         | 1,188                        | 5               | 3,390         |
| AA to AA+               | 4,897                        | 5,458        | 2,824         | 333                          | 87              | 13,599        |
| A to AA-                | -                            | -            | 3,297         | 755                          | 109             | 4,161         |
| BBB- to A-              | -                            | -            | 6,508         | 872                          | 895             | 8,275         |
| Non-investment grade    | -                            | -            | 76            | 298                          | 150             | 524           |
| Unrated                 | -                            | -            | -             | 420                          | 48              | 468           |
| <b>Total</b>            | <b>4,897</b>                 | <b>5,458</b> | <b>14,902</b> | <b>3,866</b>                 | <b>1,294</b>    | <b>30,417</b> |
| Short positions         | (4,340)                      | (1,392)      | (13,749)      | (1,620)                      | (86)            | (21,187)      |

#### Key point

- Fitch downgraded the UK's Long-Term Issuer Default Rating to AA-, from AA, in Q1 2020.

## Capital and risk management

### Non-traded market risk

Non-traded market risk is the risk to the value of assets or liabilities outside the trading book, or the risk to income, that arises from changes in market prices such as interest rates, foreign exchange rates and equity prices, or from changes in managed rates.

#### Key developments

- The outbreak of Covid-19 triggered exceptional volatility in non-traded market risk factors in March 2020 and a global sell-off across all asset classes. This notably affected credit spreads (the spread between bond yield and swap rates) arising from the liquidity portfolios held by Treasury and resulted in a sharp increase in total non-traded VaR for H1 2020.
- The Bank of England cut the UK base rate in March 2020, from 0.75% to 0.10%. In response, NatWest Group reduced customer deposit rates, but by less than the cut in base rate, resulting in margin compression. Given the very low levels of interest rates, scope to reduce deposit rates is constrained.
- The five-year sterling interest rate swap rate fell to 0.13% at 30 June 2020 from 0.81% at 31 December 2019. The corresponding ten-year rate fell to 0.25% from 0.93%. The structural hedge provides some protection against volatility in interest rates. As a result, the move in the structural hedge yield over the same period was less material, falling to 1.12% from 1.18%.
- During H1 2020, NatWest Group continued to make progress on the transition from LIBOR to alternative risk-free rates. An increasing proportion of structural hedges and hedges of other portfolios are written against swaps linked to SONIA, instead of LIBOR.
- Sterling weakened against both the US dollar and the euro over the period. Against the dollar, sterling was 1.24 at 30 June 2020 compared to 1.32 at 31 December 2019. Against the euro, it was 1.10 at 30 June 2020 compared to 1.18 at 31 December 2019. Structural foreign currency exposures increased, in sterling equivalent terms, by £653 million over the period.

#### Non-traded internal VaR (1-day 99%)

The following table shows one-day internal banking book Value-at-Risk (VaR) at a 99% confidence level, split by risk type.

|                                     | 30 June 2020  |               |               |                     | Half year ended<br>30 June 2019 |               |               |                     | 31 December 2019 |               |               |                     |
|-------------------------------------|---------------|---------------|---------------|---------------------|---------------------------------|---------------|---------------|---------------------|------------------|---------------|---------------|---------------------|
|                                     | Average<br>£m | Maximum<br>£m | Minimum<br>£m | Period<br>end<br>£m | Average<br>£m                   | Maximum<br>£m | Minimum<br>£m | Period<br>end<br>£m | Average<br>£m    | Maximum<br>£m | Minimum<br>£m | Period<br>end<br>£m |
| Interest rate                       | 12.8          | 16.9          | 8.0           | 16.9                | 11.9                            | 14.0          | 9.3           | 9.9                 | 10.1             | 12.8          | 8.0           | 8.2                 |
| Euro                                | 1.7           | 2.8           | 1.3           | 1.3                 | 1.2                             | 1.8           | 0.7           | 1.8                 | 1.5              | 2.3           | 1.1           | 1.3                 |
| Sterling                            | 10.7          | 15.8          | 6.6           | 15.8                | 11.5                            | 14.1          | 9.5           | 9.9                 | 10.0             | 12.4          | 8.0           | 8.0                 |
| US dollar                           | 9.6           | 12.9          | 5.9           | 12.0                | 4.7                             | 6.0           | 3.8           | 3.8                 | 4.5              | 5.7           | 3.4           | 5.2                 |
| Other                               | 0.7           | 0.9           | 0.5           | 0.5                 | 0.3                             | 0.4           | 0.2           | 0.4                 | 0.4              | 0.7           | 0.3           | 0.7                 |
| Credit spread                       | 99.6          | 121.1         | 63.7          | 114.7               | 54.9                            | 58.0          | 49.2          | 56.6                | 56.3             | 59.7          | 53.6          | 59.7                |
| Structural foreign<br>exchange rate | 11.9          | 14.7          | 9.8           | 14.7                | 20.0                            | 23.8          | 7.2           | 7.2                 | 10.4             | 12.5          | 8.6           | 8.6                 |
| Equity                              | 30.6          | 33.5          | 25.3          | 31.6                | 38.6                            | 38.6          | 38.6          | 38.6                | 33.8             | 38.4          | 31.6          | 33.5                |
| Pipeline risk (1)                   | 0.5           | 0.7           | 0.3           | 0.5                 | 0.3                             | 0.5           | 0.2           | 0.3                 | 0.4              | 0.9           | 0.2           | 0.2                 |
| Diversification (2)                 | (28.6)        |               |               | (25.8)              | (70.5)                          |               |               | (50.7)              | (47.0)           |               |               | (45.6)              |
| <b>Total</b>                        | <b>126.8</b>  | <b>159.9</b>  | <b>70.8</b>   | <b>152.6</b>        | <b>55.2</b>                     | <b>61.9</b>   | <b>48.1</b>   | <b>61.9</b>         | <b>64.0</b>      | <b>64.6</b>   | <b>63.0</b>   | <b>64.6</b>         |

Notes:

- (1) Pipeline risk is the risk of loss arising from Personal customers owning an option to draw down a loan – typically a mortgage – at a committed rate, where interest rate changes may result in greater or fewer customers than anticipated taking up the committed offer.
- (2) NatWest Group benefits from diversification across various financial instrument types, currencies and markets. The extent of the diversification benefit depends on the correlation between the assets and risk factors in the portfolio at a particular time. The diversification factor is the sum of the VaR on individual risk types less the total portfolio VaR.

## Capital and risk management

### Non-traded market risk continued

#### Structural hedging

NatWest Group has a significant pool of stable, non and low interest-bearing liabilities, principally comprising equity and money transmission accounts. These balances are usually hedged, either by investing directly in longer-term fixed-rate assets (such as fixed-rate mortgages or UK government gilts) or by using interest rate swaps, which are generally booked as cash flow hedges of floating rate assets, in order to provide a consistent and predictable revenue stream.

After hedging the net interest rate exposure externally, NatWest Group allocates income to equity or products in structural hedges by reference to the relevant interest rate swap curve. Over time, this approach has provided a basis for stable income attribution to products and interest rate returns. The programme aims to track a time series of medium-term swap rates, but the yield will be affected by changes in product volumes and NatWest Group's capital composition.

The table below shows the incremental income allocation above three-month LIBOR, total income allocation including three-month LIBOR, the period end and average notional balances, and the total yield including three-month LIBOR associated with the structural hedges managed by NatWest Group.

|                            | 30 June 2020             |                    |                                   |                            |                     | Half year ended<br>30 June 2019 |                       |                                   |                            |                     | 31 December 2019            |                       |                                   |                            |                     |
|----------------------------|--------------------------|--------------------|-----------------------------------|----------------------------|---------------------|---------------------------------|-----------------------|-----------------------------------|----------------------------|---------------------|-----------------------------|-----------------------|-----------------------------------|----------------------------|---------------------|
|                            | Incremental income<br>£m | Total income<br>£m | Period<br>-end<br>notional<br>£bn | Average<br>notional<br>£bn | Total<br>yield<br>% | Incremental<br>income<br>£m     | Total<br>income<br>£m | Period<br>-end<br>notional<br>£bn | Average<br>notional<br>£bn | Total<br>yield<br>% | Incremental<br>income<br>£m | Total<br>income<br>£m | Period<br>-end<br>notional<br>£bn | Average<br>notional<br>£bn | Total<br>yield<br>% |
| Equity structural hedging  | 209                      | 294                | 24                                | 25                         | 2.39                | 197                             | 332                   | 29                                | 29                         | 2.31                | 201                         | 312                   | 25                                | 26                         | 2.41                |
| Product structural hedging | 146                      | 503                | 114                               | 112                        | 0.90                | 82                              | 558                   | 111                               | 111                        | 1.01                | 102                         | 536                   | 111                               | 111                        | 0.97                |
| Other structural hedging   | 42                       | 78                 | 20                                | 20                         | 0.78                | 27                              | 84                    | 21                                | 21                         | 0.79                | 33                          | 82                    | 21                                | 21                         | 0.79                |
| <b>Total</b>               | <b>397</b>               | <b>875</b>         | <b>158</b>                        | <b>157</b>                 | <b>1.12</b>         | <b>306</b>                      | <b>974</b>            | <b>161</b>                        | <b>161</b>                 | <b>1.21</b>         | <b>336</b>                  | <b>930</b>            | <b>157</b>                        | <b>158</b>                 | <b>1.18</b>         |

Equity structural hedges refer to income allocated primarily to equity and reserves. As a result of ring-fencing in the UK, equity structural hedges were allocated to NWH Group and NWM Plc. At 30 June 2020, the equity structural hedge notional was allocated between the two businesses in a ratio of approximately 80/20 respectively.

Product structural hedges refer to income allocated to customer products by NWH Treasury, mainly current accounts and customer deposits in Commercial Banking and UK Personal Banking (excluding Ulster Bank). Other structural hedges refer to hedges managed by UBI DAC, Private Banking, Ulster Bank Limited and RBS International.

At 30 June 2020, approximately 91% by notional of total structural hedges were sterling-denominated.

The following table presents the incremental income associated with product structural hedges at segment level.

|                     | Half year ended       |                       |                           |
|---------------------|-----------------------|-----------------------|---------------------------|
|                     | 30 June<br>2020<br>£m | 30 June<br>2019<br>£m | 31 December<br>2019<br>£m |
| UK Personal Banking | 66                    | 38                    | 47                        |
| Commercial Banking  | 80                    | 44                    | 55                        |
| <b>Total</b>        | <b>146</b>            | <b>82</b>             | <b>102</b>                |

#### Key points

- The five-year sterling swap rate fell to 0.13% at the end of June 2020 from 0.81% at December 2019. The ten-year sterling swap rate also fell, to 0.25% from 0.93%. The yield of the structural hedge fell as new product hedges and maturing hedges across the portfolio were reinvested at lower market rates. At 1.12% the overall yield was still higher than market swap rates at 30 June 2020.
- Incremental income in excess of three-month LIBOR continued to increase. This was primarily due to lower three-month LIBOR fixings, resulting in more income benefit from the hedge.

## Capital and risk management

### Non-traded market risk continued

#### Sensitivity of net interest earnings

Net interest earnings are sensitive to changes in the level of interest rates, mainly because maturing structural hedges are replaced at higher or lower rates and changes to coupons on managed rate customer products do not always match changes in market rates of interest or central bank policy rates.

The sensitivity of the net interest earnings table shows the expected impact, over 12 months, to an immediate upward or downward change of 25 and 100 basis points to all interest rates. Yield curves move in parallel in upward rate shocks. However, in downward rate shocks, interest rates are assumed to floor at 0% or, for euro rates, at the current negative rate. At 30 June 2020, the floor also affects sterling interest rates, reducing the size of the downward rate shock at most maturities. The methodology, assumptions and limitations relating to the following two earnings sensitivity tables did not change materially in H1 2020. For further details, refer to pages 175-176 of the 2019 Annual Report and Accounts.

|                         | Parallel shifts in yield curve |                        |                         |                         |
|-------------------------|--------------------------------|------------------------|-------------------------|-------------------------|
|                         | +25 basis points<br>£m         | -25 basis points<br>£m | +100 basis points<br>£m | -100 basis points<br>£m |
| <b>30 June 2020</b>     |                                |                        |                         |                         |
| Euro                    | 2                              | -                      | 78                      | -                       |
| Sterling                | 321                            | (143)                  | 1,018                   | (147)                   |
| US dollar               | 20                             | (19)                   | 84                      | (17)                    |
| Other                   | 2                              | -                      | 11                      | -                       |
| <b>Total</b>            | <b>345</b>                     | <b>(162)</b>           | <b>1,191</b>            | <b>(164)</b>            |
| <b>30 June 2019</b>     |                                |                        |                         |                         |
| Euro                    | 23                             | 5                      | 88                      | 9                       |
| Sterling                | 201                            | (142)                  | 707                     | (706)                   |
| US dollar               | 15                             | (9)                    | 51                      | (52)                    |
| Other                   | (2)                            | 2                      | (9)                     | 15                      |
| <b>Total</b>            | <b>237</b>                     | <b>(144)</b>           | <b>837</b>              | <b>(734)</b>            |
| <b>31 December 2019</b> |                                |                        |                         |                         |
| Euro                    | 25                             | (2)                    | 129                     | (3)                     |
| Sterling                | 172                            | (158)                  | 716                     | (706)                   |
| US dollar               | 16                             | (11)                   | 66                      | (52)                    |
| Other                   | (1)                            | 1                      | (3)                     | 5                       |
| <b>Total</b>            | <b>212</b>                     | <b>(170)</b>           | <b>908</b>              | <b>(756)</b>            |

The table below shows the net interest earnings sensitivity of structural hedges and managed rate accounts on a one, two and three-year forward-looking basis to a parallel upward or downward interest rate shift of 25 basis points. The projection is a simple sensitivity assuming a constant balance sheet, with no change in customer behaviour or margin management strategy from rate changes. The impact on structural hedges rises as more maturing hedges are reinvested over the three-year period.

|                               | +25 basis points parallel upward shift |                             |                             | -25 basis points parallel downward shift |                             |                             |
|-------------------------------|--|-----------------------------|-----------------------------|--|-----------------------------|-----------------------------|
|                               | Year 1<br>£m                           | Year 2 <sup>(1)</sup><br>£m | Year 3 <sup>(1)</sup><br>£m | Year 1<br>£m                             | Year 2 <sup>(1)</sup><br>£m | Year 3 <sup>(1)</sup><br>£m |
| <b>30 June 2020</b>           |  |                             |                             |  |                             |                             |
| Structural hedges             | 31                                     | 97                          | 169                         | (17)                                     | (59)                        | (114)                       |
| Managed margin <sup>(2)</sup> | 323                                    | 348                         | 348                         | (134)                                    | (72)                        | (87)                        |
| Other                         | (8)                                    |                             |                             | (11)                                     |                             |                             |
| <b>Total</b>                  | <b>346</b>                             | <b>445</b>                  | <b>517</b>                  | <b>(162)</b>                             | <b>(131)</b>                | <b>(201)</b>                |
| <b>31 December 2019</b>       |  |                             |                             |  |                             |                             |
| Structural hedges             | 31                                     | 97                          | 168                         | (27)                                     | (90)                        | (154)                       |
| Managed margin <sup>(2)</sup> | 195                                    | 195                         | 196                         | (158)                                    | (127)                       | (128)                       |
| Other                         | (14)                                   |                             |                             | 15                                       |                             |                             |
| <b>Total</b>                  | <b>212</b>                             | <b>292</b>                  | <b>364</b>                  | <b>(170)</b>                             | <b>(217)</b>                | <b>(282)</b>                |

Notes:

(1) The projections for Year 2 and Year 3 consider only the main drivers of earnings sensitivity, namely structural hedging and margin management.

(2) Primarily current accounts and savings accounts.

#### Key points

- The increased favourable sensitivity to the 25 and 100-basis-point downward shifts in yield curves over H1 2020 was mainly driven by (i) the significantly increased volumes of savings and current accounts over the period and (ii) changes to estimates of the extent to which NatWest Group passes through the impact of changes in interest rates to these products. These estimates are regularly reviewed and are influenced by the overall level of interest rates, NatWest Group's competitive position and other strategic considerations.
- The sensitivity to the 25 and 100-basis-point downward shift in yield curves was also significantly affected by the changes to the level of interest rates. In the shock scenario, rates fell less at 30 June 2020 before hitting an assumed 0% floor compared to 31 December 2019. This resulted in a lower adverse impact at 30 June 2020, which was particularly notable in the 100-basis-point downward shock.

## Capital and risk management

### Non-traded market risk continued

#### Foreign exchange risk

The table below shows structural foreign currency exposures.

|                         | Net investments in foreign operations<br>£m | Net investment hedges<br>£m | Structural foreign currency exposures pre-economic hedges<br>£m | Economic hedges <sup>(1)</sup><br>£m | Residual structural foreign currency exposures<br>£m |
|-------------------------|---|-----------------------------|---|--------------------------------------|--|
| <b>30 June 2020</b>     |   |                             |   |                                      |  |
| US dollar               | 1,651                                       | (113)                       | 1,538   | (1,538)                              | -  |
| Euro                    | 6,552                                       | (701)                       | 5,851   | -                                    | 5,851  |
| Other non-sterling      | 1,311                                       | (398)                       | 913   | -                                    | 913  |
| <b>Total</b>            | <b>9,514</b>                                | <b>(1,212)</b>              | <b>8,302</b>  | <b>(1,538)</b>                       | <b>6,764</b>   |
| <b>31 December 2019</b> |   |                             |   |                                      |  |
| US dollar               | 1,519                                       | -                           | 1,519   | (1,519)                              | -  |
| Euro                    | 5,914                                       | (650)                       | 5,264   | -                                    | 5,264  |
| Other non-sterling      | 1,498                                       | (651)                       | 847   | -                                    | 847  |
| <b>Total</b>            | <b>8,931</b>                                | <b>(1,301)</b>              | <b>7,630</b>  | <b>(1,519)</b>                       | <b>6,111</b>   |

Note:

- (1) Economic hedges of US dollar net investments in foreign operations represent US dollar equity securities that do not qualify as net investment hedges for accounting purposes. They provide an offset to structural foreign exchange exposures to the extent that there are net assets in overseas operations available. Economic hedges of other currency net investments in foreign operations represent monetary liabilities that are not booked as net investment hedges.

#### Key points

- The overall increase in net investments in foreign operations and residual structural foreign currency exposures mainly reflected the weakening of sterling against other currencies.
- Some hedging of US dollar investments was arranged during H1 2020, in advance of expected US dollar distributions from overseas businesses in Q3 2020. Hedging of other non-sterling businesses decreased following the receipt of a distribution from Coutts & Co. Ltd as part of the wind-down of this company's operations.
- Changes in foreign currency exchange rates affect equity in proportion to structural foreign currency exposures pre-economic hedges. For example, at 30 June 2020, a 5% strengthening in foreign currencies against sterling would result in a gain of £0.4 billion in equity while a 5% weakening in foreign currencies against sterling would result in a loss of £0.4 billion in equity.

#### Traded market risk

Traded market risk is the risk arising from changes in fair value on positions, assets, liabilities or commitments in trading portfolios as a result of fluctuations in market prices.

#### Traded VaR (1-day 99%)

The table below shows one-day internal value-at-risk (VaR) for NatWest Group's trading portfolios, split by exposure type.

|                                | 30 June 2020  |               |               |                     | Half year ended<br>30 June 2019 |               |               |                     | 31 December 2019 |               |               |                     |
|--------------------------------|---------------|---------------|---------------|---------------------|---------------------------------|---------------|---------------|---------------------|------------------|---------------|---------------|---------------------|
|                                | Average<br>£m | Maximum<br>£m | Minimum<br>£m | Period<br>end<br>£m | Average<br>£m                   | Maximum<br>£m | Minimum<br>£m | Period<br>end<br>£m | Average<br>£m    | Maximum<br>£m | Minimum<br>£m | Period<br>end<br>£m |
| Interest rate                  | 10.1          | 20.2          | 6.1           | 6.1                 | 10.3                            | 16.9          | 6.9           | 9.8                 | 9.1              | 13.6          | 6.3           | 10.6                |
| Credit spread                  | 16.3          | 27.2          | 8.7           | 17.7                | 9.4                             | 12.7          | 7.0           | 9.9                 | 11.5             | 14.5          | 9.8           | 10.6                |
| Currency                       | 4.2           | 8.4           | 2.1           | 3.9                 | 3.6                             | 5.8           | 2.0           | 3.8                 | 4.4              | 10.5          | 1.6           | 3.2                 |
| Equity                         | 0.8           | 2.0           | 0.3           | 0.3                 | 0.7                             | 2.2           | 0.3           | 0.5                 | 0.7              | 1.6           | 0.3           | 0.9                 |
| Commodity                      | 0.1           | 0.3           | 0.0           | 0.1                 | 0.2                             | 0.5           | -             | 0.2                 | 0.1              | 0.2           | -             | 0.1                 |
| Diversification <sup>(1)</sup> | (14.8)        |               |               | (9.6)               | (9.3)                           |               |               | (10.6)              | (11.1)           |               |               | (11.3)              |
| <b>Total</b>                   | <b>16.7</b>   | <b>25.7</b>   | <b>10.1</b>   | <b>18.5</b>         | <b>14.9</b>                     | <b>21.5</b>   | <b>12.1</b>   | <b>13.6</b>         | <b>14.7</b>      | <b>21.5</b>   | <b>10.1</b>   | <b>14.1</b>         |

Note:

- (1) NatWest Group benefits from diversification across various financial instrument types, currencies and markets. The extent of the diversification benefit depends on the correlation between the assets and risk factors in the portfolio at a particular time. The diversification factor is the sum of the VaR on individual risk types less the total portfolio VaR.

#### Key points

- Average traded VaR increased in H1 2020 compared to both H1 and H2 2019. This reflected Covid-19-related market volatility entering the time series used in the VaR model.
- Despite this volatility, traded VaR remained within appetite throughout H1 2020.
- The peaks in total, interest rate and credit spread VaR were due to client bond syndication activity, including the recent 2061 UK Gilt issuance in which NatWest Markets acted as duration manager on behalf of the UK Debt Management Office.

## Capital and risk management

### Other risks

#### Operational risk

- During the second quarter there was significant focus on the potential operational risks arising from the change in working practices due to the pandemic, particularly the move to home-working in order to protect staff and support customers through the crisis. Management attention also focused heavily on operational resilience to ensure that planning, controls and operational activities remained robust and appropriate.
- NatWest Group's control environment was continually monitored to ensure that the challenges posed by adapting to the impact of Covid-19 were safely addressed.
- There was also continued oversight of NatWest Group's preparations for the end of the transition period, following the UK's exit from the EU, to ensure that processes and systems are appropriate to ensure continuity of service for customers.

#### Compliance and Conduct risk

- The impact of the pandemic on the NatWest Group's conduct risk and regulatory compliance risk profiles remained an important area of focus. This included oversight of the NatWest Group's diverse initiatives to support its customers throughout the crisis. While the NatWest Group acted to ensure customer needs were met at pace, the associated conduct and compliance risks were carefully assessed and monitored throughout.
- In addition, there was a sustained emphasis on oversight of the NatWest Group's pricing, payment and forbearance treatment strategies to support customers in recent months, as well as prioritising the delivery of mandatory and regulatory change programmes.
- The transition from LIBOR to risk-free rates by the end of 2021 and continued demonstration of compliance with ring-fencing rules will remain a key focus.

#### Climate-related financial risk

- Progress continued to be made on the integration of climate-related financial risks into NatWest Group's risk management framework. This included a focus on scenario-based analysis for both physical and transition risks in preparation for the deferred Bank of England biennial exploratory scenario in 2021.

Condensed consolidated income statement for the period ended 30 June 2020 (unaudited)

|   | Half year ended       |                       |
|---|-----------------------|-----------------------|
|   | 30 June<br>2020<br>£m | 30 June<br>2019<br>£m |
| Interest receivable                         | 5,190                 | 5,553                 |
| Interest payable                            | (1,338)               | (1,549)               |
| <b>Net interest income (1)</b>              | <b>3,852</b>          | <b>4,004</b>          |
| Fees and commissions receivable             | 1,430                 | 1,762                 |
| Fees and commissions payable                | (392)                 | (487)                 |
| Income from trading activities              | 802                   | 599                   |
| Other operating income                      | 146                   | 1,239                 |
| <b>Non-interest income</b>                  | <b>1,986</b>          | <b>3,113</b>          |
| <b>Total income</b>                         | <b>5,838</b>          | <b>7,117</b>          |
| Staff costs                                 | (1,955)               | (2,028)               |
| Premises and equipment                      | (651)                 | (558)                 |
| Other administrative expenses               | (696)                 | (863)                 |
| Depreciation and amortisation               | (441)                 | (621)                 |
| Impairment of other intangible assets       | (7)                   | (30)                  |
| <b>Operating expenses</b>                   | <b>(3,750)</b>        | <b>(4,100)</b>        |
| <b>Profit before impairment losses</b>      | <b>2,088</b>          | <b>3,017</b>          |
| Impairment losses                           | (2,858)               | (323)                 |
| <b>Operating (loss)/profit before tax</b>   | <b>(770)</b>          | <b>2,694</b>          |
| Tax credit/(charge)                         | 208                   | (194)                 |
| <b>(Loss)/profit for the period</b>         | <b>(562)</b>          | <b>2,500</b>          |
| <b>Attributable to:</b>                     |                       |                       |
| Ordinary shareholders                       | (705)                 | 2,038                 |
| Preference shareholders                     | 16                    | 20                    |
| Paid-in equity holders                      | 192                   | 182                   |
| Non-controlling interests                   | (65)                  | 260                   |
|   | <b>(562)</b>          | <b>2,500</b>          |
| Earnings per ordinary share                 | (5.8p)                | 16.9p                 |
| Earnings per ordinary share - fully diluted | (5.8p)                | 16.8p                 |

Note:

(1) Negative interest on loans is reported as interest payable. Negative interest on customer deposits is reported as interest receivable.

Condensed consolidated statement of comprehensive income for the period ended 30 June 2020 (unaudited)

|  | Half year ended       |                       |
|--|-----------------------|-----------------------|
|  | 30 June<br>2020<br>£m | 30 June<br>2019<br>£m |
| (Loss)/profit for the period   | (562)                 | 2,500                 |
| <b>Items that do not qualify for reclassification</b>  |                       |                       |
| Remeasurement of retirement benefit schemes  | 68                    | (68)                  |
| Profit/(loss) on fair value of credit in financial liabilities<br>designated at FVTPL due to own credit risk | 83                    | (96)                  |
| FVOCI financial assets   | (120)                 | 38                    |
| Tax  | -                     | 26                    |
|  | 31                    | (100)                 |
| <b>Items that do qualify for reclassification</b>  |                       |                       |
| FVOCI financial assets   | (111)                 | (12)                  |
| Cash flow hedges   | 417                   | 402                   |
| Currency translation   | 575                   | (241)                 |
| Tax  | (179)                 | (122)                 |
|  | 702                   | 27                    |
| <b>Other comprehensive income/(loss) after tax</b>   | 733                   | (73)                  |
| <b>Total comprehensive income for the period</b>   | 171                   | 2,427                 |
| <b>Attributable to:</b>  |                       |                       |
| Ordinary shareholders  | 14                    | 1,950                 |
| Preference shareholders  | 16                    | 20                    |
| Paid-in equity holders   | 192                   | 182                   |
| Non-controlling interests  | (51)                  | 275                   |
|  | 171                   | 2,427                 |

Condensed consolidated balance sheet as at 30 June 2020 (unaudited)

|                                     | 30 June<br>2020<br>£m | 31 December<br>2019<br>£m |
|-------------------------------------|-----------------------|---------------------------|
| <b>Assets</b>                       |                       |                           |
| Cash and balances at central banks  | 100,281               | 77,858                    |
| Trading assets                      | 72,402                | 76,745                    |
| Derivatives                         | 183,419               | 150,029                   |
| Settlement balances                 | 7,806                 | 4,387                     |
| Loans to banks - amortised cost     | 12,972                | 10,689                    |
| Loans to customers - amortised cost | 352,341               | 326,947                   |
| Other financial assets              | 62,727                | 61,452                    |
| Intangible assets                   | 6,602                 | 6,622                     |
| Other assets                        | 8,337                 | 8,310                     |
| <b>Total assets</b>                 | <b>806,887</b>        | <b>723,039</b>            |
| <b>Liabilities</b>                  |                       |                           |
| Bank deposits                       | 21,119                | 20,493                    |
| Customer deposits                   | 408,268               | 369,247                   |
| Settlement balances                 | 6,895                 | 4,069                     |
| Trading liabilities                 | 75,540                | 73,949                    |
| Derivatives                         | 179,859               | 146,879                   |
| Other financial liabilities         | 49,681                | 45,220                    |
| Subordinated liabilities            | 13,558                | 9,979                     |
| Other liabilities                   | 8,906                 | 9,647                     |
| <b>Total liabilities</b>            | <b>763,826</b>        | <b>679,483</b>            |
| <b>Equity</b>                       |                       |                           |
| Ordinary shareholders' interests    | 38,608                | 38,993                    |
| Other owners' interests             | 4,495                 | 4,554                     |
| Owners' equity                      | 43,103                | 43,547                    |
| Non-controlling interests           | (42)                  | 9                         |
| Total equity                        | 43,061                | 43,556                    |
| <b>Total liabilities and equity</b> | <b>806,887</b>        | <b>723,039</b>            |

Condensed consolidated statement of changes in equity for the period ended 30 June 2020 (unaudited)

|  | Half year ended       |                       |
|--|-----------------------|-----------------------|
|  | 30 June<br>2020<br>£m | 30 June<br>2019<br>£m |
| Called-up share capital - at beginning of period   | 12,094                | 12,049                |
| Ordinary shares issued   | 31                    | 42                    |
| At end of period   | 12,125                | 12,091                |
| Paid-in equity - at beginning of period  | 4,058                 | 4,058                 |
| Redeemed/reclassified (1)  | (1,277)               | -                     |
| Securities issued during the period (2)  | 1,220                 | -                     |
| At end of period   | 4,001                 | 4,058                 |
| Share premium account - at beginning of period   | 1,094                 | 1,027                 |
| Ordinary shares issued   | 16                    | 62                    |
| At end of period   | 1,110                 | 1,089                 |
| Merger reserve - at beginning and end of period  | 10,881                | 10,881                |
| FVOCI reserve - at beginning of period   | 138                   | 343                   |
| Unrealised (losses)/gains  | (123)                 | 45                    |
| Realised gains   | (107)                 | (133)                 |
| Tax  | 12                    | 10                    |
| At end of period   | (80)                  | 265                   |
| Cash flow hedging reserve - at beginning of period   | 35                    | (191)                 |
| Amount recognised in equity  | 445                   | 524                   |
| Amount transferred from equity to earnings   | (28)                  | (122)                 |
| Tax  | (111)                 | (94)                  |
| At end of period   | 341                   | 117                   |
| Foreign exchange reserve - at beginning of period  | 1,343                 | 3,278                 |
| Retranslation of net assets  | 527                   | 30                    |
| Foreign currency losses on hedges of net assets  | (63)                  | 1                     |
| Tax  | (95)                  | 8                     |
| Recycled to profit or loss on disposal of businesses (3)   | 97                    | (335)                 |
| At end of period   | 1,809                 | 2,982                 |
| Retained earnings - at beginning of period   | 13,946                | 14,312                |
| Implementation of IFRS 16 on 1 January 2019  | -                     | (187)                 |
| (Loss)/profit attributable to ordinary shareholders and other equity owners                              | (497)                 | 2,240                 |
| Equity preference dividends paid   | (16)                  | (20)                  |
| Paid-in equity dividends paid  | (192)                 | (182)                 |
| Ordinary dividends paid  | -                     | (1,327)               |
| Redemption/reclassification of paid-in equity (1)  | (355)                 | -                     |
| Realised (losses)/gains in period on FVOCI equity shares   | (1)                   | 114                   |
| Remeasurement of the retirement benefit schemes (4)  |                       |                       |
| - gross  | 68                    | (68)                  |
| - tax  | 23                    | 18                    |
| Changes in fair value of credit in financial liabilities designated at fair value through profit or loss |                       |                       |
| - gross  | 83                    | (96)                  |
| - tax  | (8)                   | 10                    |
| Shares issued under employee share schemes   | (11)                  | (4)                   |
| Share-based payments   | (100)                 | (26)                  |
| At end of period   | 12,940                | 14,784                |

Condensed consolidated statement of changes in equity for the period ended 30 June 2020 (unaudited) continued

|   | Half year ended       |                       |
|---|-----------------------|-----------------------|
|   | 30 June<br>2020<br>£m | 30 June<br>2019<br>£m |
| Own shares held - at beginning of period                | (42)                  | (21)                  |
| Shares issued under employee share schemes              | 95                    | (58)                  |
| Own shares acquired                                     | (77)                  | 33                    |
| At end of period  | (24)                  | (46)                  |
| <b>Owners' equity at end of period</b>                  | <b>43,103</b>         | <b>46,221</b>         |
| Non-controlling interests - at beginning of period      | 9                     | 754                   |
| Currency translation adjustments and other movements    | 14                    | 15                    |
| (Loss)/profit attributable to non-controlling interests | (65)                  | 260                   |
| Equity raised (5)                                       | -                     | 45                    |
| Equity withdrawn and disposals (6)                      | -                     | (1,058)               |
| At end of period  | (42)                  | 16                    |
| <b>Total equity at end of period</b>                    | <b>43,061</b>         | <b>46,237</b>         |
| Attributable to:  |                       |                       |
| Ordinary shareholders                                   | 38,608                | 41,667                |
| Preference shareholders                                 | 494                   | 496                   |
| Paid-in equity holders                                  | 4,001                 | 4,058                 |
| Non-controlling interests                               | (42)                  | 16                    |
|   | <b>43,061</b>         | <b>46,237</b>         |

Notes:

- (1) Paid-in equity reclassified to liabilities as the result of a call of US\$2 billion AT1 notes in June 2020 (to be redeemed in August 2020).
- (2) AT1 capital notes totalling US\$1.49 billion (net of US\$10.5 million fees) issued in June 2020.
- (3) Includes £338 million arising on the completion of the Alawwal bank merger in June 2019, of which £48 million relates to tax. The merger resulted in the de-recognition of the associate investment in Alawwal bank and recognition of a new investment in SABB held at fair value through other comprehensive income (FVOCI).
- (4) Includes net gains of £90 million (€101 million) in relation to the interim re-measurement of the Ulster Bank Pension Scheme (Republic of Ireland), as a result of significant movements in underlying actuarial assumptions. In line with our policy, the present value of defined benefit obligations and the fair value of plan assets at the end of the interim reporting period, are assessed to identify significant market fluctuations and one-off events since the end of the prior financial year.
- (5) Capital injection from RFS Holdings B.V. Consortium Members.
- (6) Distribution to RFS Holdings B.V. Consortium Members on completion of the Alawwal bank merger.

Condensed consolidated cash flow statement for the period ended 30 June 2020 (unaudited)

|   | Half year ended       |                                      |
|---|-----------------------|--------------------------------------|
|   | 30 June<br>2020<br>£m | 30 June<br>2019 <sup>(1)</sup><br>£m |
| <b>Operating activities</b>                                   |                       |                                      |
| Operating (loss)/profit before tax                            | (770)                 | 2,694                                |
| Adjustments for non-cash items                                | 1,271                 | 397                                  |
| <b>Net cash outflow from trading activities</b>               | <b>501</b>            | 3,091                                |
| Changes in operating assets and liabilities                   | 14,281                | 4,083                                |
| <b>Net cash flows from operating activities before tax</b>    | <b>14,782</b>         | 7,174                                |
| Income taxes paid   | (231)                 | (192)                                |
| <b>Net cash flows from operating activities</b>               | <b>14,551</b>         | 6,982                                |
| <b>Net cash flows from investing activities</b>               | <b>2,035</b>          | (4,770)                              |
| <b>Net cash flows from financing activities</b>               | <b>2,748</b>          | (705)                                |
| Effects of exchange rate changes on cash and cash equivalents | 2,752                 | 211                                  |
| <b>Net increase in cash and cash equivalents</b>              | <b>22,086</b>         | 1,718                                |
| Cash and cash equivalents at beginning of period              | 100,588               | 108,936                              |
| <b>Cash and cash equivalents at end of period</b>             | <b>122,674</b>        | 110,654                              |

Note:

- (1) 2019 has been re-presented to align to the balance sheet classification. Furthermore, MREL was previously presented in Operating activities is now presented in Financing activities.

## Notes

### 1. Basis of preparation

NatWest Group's condensed consolidated financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and IAS 34 'Interim Financial Reporting'. The condensed consolidated financial statements should be read in conjunction with NatWest Group plc's (formerly The Royal Bank of Scotland Group plc) 2019 Annual Report and Accounts which were prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the IFRS Interpretations Committee of the IASB as adopted by the European Union (EU) (together IFRS).

### Going concern

In light of the current economic uncertainty we have updated our going concern assessment. Having reviewed NatWest Group's forecasts, projections, including different potential scenarios and the effect of Covid-19, and other relevant evidence, the directors have a reasonable expectation that NatWest Group will continue in operational existence for the foreseeable future. Accordingly, the results for the period ended 30 June 2020 have been prepared on a going concern basis.

### 2. Accounting policies

NatWest Group's principal accounting policies are as set out on pages 208 to 212 of the NatWest Group plc 2019 Annual Report and Accounts and are unchanged other than as presented below.

#### Accounting policy changes effective 1 January 2020

##### Amendments to IFRS 3 Business Combinations (IFRS 3) - Changes to the definition of a business

The IASB amended IFRS 3 to provide additional guidance on the definition of a business. The amendment aims to help entities when determining whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments are in line with current accounting policy and therefore did not affect the accounts.

##### Definition of material – Amendments to IAS 1 – Presentation of Financial Statements (IAS 1) and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8)

The IASB clarified the definition of 'material' and aligned the definition of material used in the Conceptual Framework and in other IFRS standards. The amendments clarify that materiality will depend on the nature or magnitude of information. Under the amended definition of materiality, an entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. NatWest Group's definition and application of materiality is in line with the definition in the amendments.

##### Interest Rate Benchmark Reform (IBOR reform) Phase I amendments to IFRS 9 and IAS 39

The IASB issued 'Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)' as a first reaction to the potential effects the IBOR reform could have on financial reporting. The amendments focused on hedge accounting and allow hedge relationships affected by the IBOR reform to be accounted for as continuing hedges. Amendments are effective for annual reporting periods beginning on or after 1 January 2020. NatWest Group early adopted these amendments for the annual period ending on 31 December 2019.

Phase II of the IASB's IBOR reform project addressing the wider accounting issues arising from the reform is currently in re-deliberation phase and is expected to be available as a final standard for early adoption for the period ending on 31 December 2020. NatWest Group intends to early adopt the phase II standard. NatWest Group-wide IBOR transition program remains on-track and key milestones have been met. We expect conversion from LIBOR to alternative risk free rates (RFRs) to increase in H2 2020 as RFR-based products become more widely available and key market-driven conversion events occur.

#### Amendment to IFRS effective 1 June 2020

##### Covid-19 amendments on lease modifications – Amendments to IFRS 16 – Leases (IFRS 16)

The IASB published 'amendments to IFRS 16 covering Covid-19-Related Rent Concessions'. These provide lessees with an exemption from assessing whether a Covid-19 related rent concession is a lease modification. The amendment is effective for annual reporting periods beginning on or after 1 June 2020. The effect of the amendment on NatWest Group's financial statements is immaterial and will be adopted from 1 January 2021.

#### 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 NatWest Group's financial condition are those relating to goodwill, provisions for liabilities and charges, deferred tax, loan impairment provisions and fair value of financial instruments. These critical accounting policies and judgements are described on page 212 of the NatWest Group plc 2019 Annual Report and Accounts. During H1 2020, 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 this announcement (as applicable), including the ECL estimate for the period in the Capital and Risk Management section.

#### Information used for significant estimates

The Covid-19 pandemic has continued to cause significant economic and social disruption during the quarter ended 30 June 2020. Key financial estimates are based on a range of anticipated future economic conditions described by internally developed scenarios. Measurement of goodwill, 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, including impairment of goodwill and this has been considered in the risk factors on pages 108 and 109.

## Notes

### 3. Analysis of income, expenses and impairment losses

|  | Half year ended |                |
|--|-----------------|----------------|
|  | 30 June         | 30 June        |
|  | 2020            | 2019           |
|  | £m              | £m             |
| Loans to customers - amortised cost  | 4,698           | 4,848          |
| Loans to banks - amortised cost  | 189             | 346            |
| Other financial assets   | 303             | 359            |
| <b>Interest receivable (1)</b>   | <b>5,190</b>    | <b>5,553</b>   |
| Deposits by banks  | 89              | 144            |
| Customer deposits  | 432             | 599            |
| Other financial liabilities  | 481             | 481            |
| Subordinated liabilities   | 218             | 245            |
| Internal funding of trading businesses   | 118             | 80             |
| <b>Interest payable (1)</b>  | <b>1,338</b>    | <b>1,549</b>   |
| <b>Net interest income</b>   | <b>3,852</b>    | <b>4,004</b>   |
| <b>Net fees and commissions</b>  | <b>1,038</b>    | <b>1,275</b>   |
| Foreign exchange   | 344             | 219            |
| Interest rate  | 472             | 397            |
| Credit   | (68)            | 31             |
| Own credit adjustment  | 53              | (46)           |
| Equity, commodities and other  | 1               | (2)            |
| <b>Income from trading activities</b>  | <b>802</b>      | <b>599</b>     |
| Operating lease and other rental income  | 119             | 127            |
| Changes in fair value of financial assets or liabilities designated at fair value through profit or loss (2) | (21)            | 19             |
| Changes in fair value of other financial assets fair value through profit or loss                            | (10)            | 31             |
| Hedge ineffectiveness  | (10)            | 21             |
| Loss on disposal of amortised assets   | (16)            | -              |
| Profit on disposal of fair value through other comprehensive income assets                                   | 108             | 16             |
| Profit on sale of property, plant and equipment  | 11              | 15             |
| Share of profit/(loss) of associated entities  | 12              | (22)           |
| (Loss)/profit on disposal of subsidiaries and associates (3)   | (99)            | 1,037          |
| Other income   | 52              | (5)            |
| <b>Other operating income</b>  | <b>146</b>      | <b>1,239</b>   |
| <b>Total non-interest income</b>   | <b>1,986</b>    | <b>3,113</b>   |
| <b>Total income</b>  | <b>5,838</b>    | <b>7,117</b>   |
| Salaries   | (1,290)         | (1,260)        |
| Variable compensation  | (179)           | (185)          |
| Temporary and contract costs   | (148)           | (207)          |
| Social security costs  | (153)           | (156)          |
| Pension costs  | (164)           | (162)          |
| Other  | (21)            | (58)           |
| <b>Staff costs</b>   | <b>(1,955)</b>  | <b>(2,028)</b> |
| Premises and equipment   | (651)           | (558)          |
| Depreciation and amortisation (4)  | (441)           | (621)          |
| Other administrative expenses (5)  | (696)           | (863)          |
| Impairment of other intangible assets  | (7)             | (30)           |
| <b>Operating expenses</b>  | <b>(3,750)</b>  | <b>(4,100)</b> |
| <b>Impairment losses</b>   | <b>(2,858)</b>  | <b>(323)</b>   |
| <b>Impairments as a % of gross loans to customers</b>  | <b>1.59%</b>    | <b>0.21%</b>   |

#### Notes:

- (1) Negative interest on loans is reported as interest payable. Negative interest on customer deposits is reported as interest receivable.
- (2) Including related derivatives.
- (3) Half year ended 30 June 2019 includes a gain of £444 million, a legacy liability release of £256 million and an FX recycling gain of £290 million on completion of the Alawwal bank merger.
- (4) Half year ended 30 June 2019 includes a property impairment of £133 million and accelerated depreciation of £66 million in relation to the planned reduction of the property portfolio.
- (5) Includes litigation and conduct costs, net of amounts recovered.

## Notes

### 4. Segmental analysis

The business is organised into the following reportable segments:

- UK Personal Banking, Ulster Bank RoI, Commercial Banking, Private Banking, RBS International, NatWest Markets and Central items & other.

### Analysis of operating profit/(loss) before tax

The following tables provide a segmental analysis of operating profit/(loss) before tax by main income statement captions.

|                                     | Net interest income | Net fees and commissions | Other non-interest income | Total income | Operating expenses | Impairment (losses)/ releases | Operating profit/(loss) |
|-------------------------------------|---------------------|--------------------------|---------------------------|--------------|--------------------|-------------------------------|-------------------------|
|                                     | £m                  | £m                       | £m                        | £m           | £m                 | £m                            | £m                      |
| <b>Half year ended 30 June 2020</b> |                     |                          |                           |              |                    |                               |                         |
| UK Personal Banking                 | 1,982               | 204                      | (1)                       | 2,185        | (1,075)            | (657)                         | 453                     |
| Ulster Bank RoI                     | 194                 | 44                       | 11                        | 249          | (245)              | (243)                         | (239)                   |
| Commercial Banking                  | 1,370               | 552                      | 81                        | 2,003        | (1,221)            | (1,790)                       | (1,008)                 |
| Private Banking                     | 251                 | 130                      | 11                        | 392          | (252)              | (56)                          | 84                      |
| RBS International                   | 201                 | 43                       | 15                        | 259          | (126)              | (46)                          | 87                      |
| NatWest Markets                     | (34)                | 76                       | 774                       | 816          | (707)              | (40)                          | 69                      |
| Central items & other               | (112)               | (11)                     | 57                        | (66)         | (124)              | (26)                          | (216)                   |
| <b>Total</b>                        | <b>3,852</b>        | <b>1,038</b>             | <b>948</b>                | <b>5,838</b> | <b>(3,750)</b>     | <b>(2,858)</b>                | <b>(770)</b>            |

#### Half year ended 30 June 2019

|                       |              |              |              |              |                |              |              |
|-----------------------|--------------|--------------|--------------|--------------|----------------|--------------|--------------|
| UK Personal Banking   | 2,084        | 366          | (3)          | 2,447        | (1,229)        | (181)        | 1,037        |
| Ulster Bank RoI       | 200          | 51           | 32           | 283          | (281)          | 21           | 23           |
| Commercial Banking    | 1,424        | 661          | 80           | 2,165        | (1,262)        | (202)        | 701          |
| Private Banking       | 261          | 111          | 12           | 384          | (232)          | 3            | 155          |
| RBS International     | 242          | 53           | 15           | 310          | (119)          | 3            | 194          |
| NatWest Markets       | (122)        | 48           | 1,016        | 942          | (678)          | 36           | 300          |
| Central items & other | (85)         | (15)         | 686          | 586          | (299)          | (3)          | 284          |
| <b>Total</b>          | <b>4,004</b> | <b>1,275</b> | <b>1,838</b> | <b>7,117</b> | <b>(4,100)</b> | <b>(323)</b> | <b>2,694</b> |

|                           | Half year ended |               |              |              |               |              |
|---------------------------|-----------------|---------------|--------------|--------------|---------------|--------------|
|                           | 30 June 2020    |               |              | 30 June 2019 |               |              |
|                           | External        | Inter segment | Total        | External     | Inter segment | Total        |
|                           | £m              | £m            | £m           | £m           | £m            | £m           |
| <b>Total revenue</b>      |                 |               |              |              |               |              |
| UK Personal Banking       | 2,764           | 24            | 2,788        | 3,118        | 32            | 3,150        |
| Ulster Bank RoI           | 277             | -             | 277          | 309          | 2             | 311          |
| Commercial Banking        | 2,009           | 47            | 2,056        | 2,173        | 63            | 2,236        |
| Private Banking           | 358             | 99            | 457          | 343          | 120           | 463          |
| RBS International         | 269             | 3             | 272          | 319          | 15            | 334          |
| NatWest Markets           | 1,328           | 4             | 1,332        | 1,494        | 510           | 2,004        |
| Central items & other (1) | 563             | (177)         | 386          | 1,397        | (742)         | 655          |
| <b>Total</b>              | <b>7,568</b>    | <b>-</b>      | <b>7,568</b> | <b>9,153</b> | <b>-</b>      | <b>9,153</b> |

Note:

- (1) Half year ended 2020 predominantly relates to interest receivable in Treasury. Half year ended 2019 predominantly related to interest receivable in Treasury and strategic disposals in Functions.

## Notes

### 4. Segmental analysis continued

#### Analysis of net fees and commissions

|  | UK<br>Personal<br>Banking<br>£m | Ulster<br>Bank Rol<br>£m | Commercial<br>Banking<br>£m | Private<br>Banking<br>£m | RBS<br>International<br>£m | NatWest<br>Markets<br>£m | Central<br>items<br>& other<br>£m | Total<br>£m  |
|--|---------------------------------|--------------------------|-----------------------------|--------------------------|----------------------------|--------------------------|-----------------------------------|--------------|
| <b>Half year ended 30 June 2020</b>                        |                                 |                          |                             |                          |                            |                          |                                   |              |
| <b>Fees and commissions receivable</b>                     |                                 |                          |                             |                          |                            |                          |                                   |              |
| - Payment services   | 129                             | 28                       | 256                         | 14                       | 9                          | 9                        | -                                 | 445          |
| - Lending (credit facilities)                              | 37                              | 6                        | 199                         | 2                        | 14                         | 44                       | -                                 | 302          |
| - Credit and debit card fees                               | 144                             | 10                       | 60                          | 4                        | 1                          | -                        | -                                 | 219          |
| - Investment management, trustee<br>and fiduciary services | 1                               | 1                        | -                           | 113                      | 17                         | -                        | -                                 | 132          |
| - Underwriting fees  | -                               | -                        | -                           | -                        | -                          | 124                      | -                                 | 124          |
| - Other  | 34                              | 3                        | 90                          | 18                       | 3                          | 100                      | (40)                              | 208          |
| <b>Total</b>   | <b>345</b>                      | <b>48</b>                | <b>605</b>                  | <b>151</b>               | <b>44</b>                  | <b>277</b>               | <b>(40)</b>                       | <b>1,430</b> |
| <b>Fees and commissions payable</b>                        | <b>(141)</b>                    | <b>(4)</b>               | <b>(53)</b>                 | <b>(21)</b>              | <b>(1)</b>                 | <b>(201)</b>             | <b>29</b>                         | <b>(392)</b> |
| <b>Net fees and commissions</b>                            | <b>204</b>                      | <b>44</b>                | <b>552</b>                  | <b>130</b>               | <b>43</b>                  | <b>76</b>                | <b>(11)</b>                       | <b>1,038</b> |

#### Half year ended 30 June 2019

|  |              |            |             |             |            |              |             |              |
|--|--------------|------------|-------------|-------------|------------|--------------|-------------|--------------|
| <b>Fees and commissions receivable</b>                     |              |            |             |             |            |              |             |              |
| - Payment services   | 154          | 21         | 323         | 17          | 12         | 15           | -           | 542          |
| - Lending (credit facilities)                              | 266          | 18         | 204         | 1           | 18         | 35           | -           | 542          |
| - Credit and debit card fees                               | 189          | 10         | 84          | 6           | 1          | -            | -           | 290          |
| - Investment management, trustee<br>and fiduciary services | 22           | 2          | 3           | 91          | 20         | -            | -           | 138          |
| - Underwriting fees  | -            | -          | -           | -           | -          | 100          | -           | 100          |
| - Other  | 36           | 6          | 82          | 12          | 3          | 88           | (77)        | 150          |
| <b>Total</b>   | <b>667</b>   | <b>57</b>  | <b>696</b>  | <b>127</b>  | <b>54</b>  | <b>238</b>   | <b>(77)</b> | <b>1,762</b> |
| <b>Fees and commissions payable</b>                        | <b>(301)</b> | <b>(6)</b> | <b>(35)</b> | <b>(16)</b> | <b>(1)</b> | <b>(190)</b> | <b>62</b>   | <b>(487)</b> |
| <b>Net fees and commissions</b>                            | <b>366</b>   | <b>51</b>  | <b>661</b>  | <b>111</b>  | <b>53</b>  | <b>48</b>    | <b>(15)</b> | <b>1,275</b> |

#### Total assets and liabilities

|                       | 30 June 2020   |                   | 31 December 2019 |                   |
|-----------------------|----------------|-------------------|------------------|-------------------|
|                       | Assets<br>£m   | Liabilities<br>£m | Assets<br>£m     | Liabilities<br>£m |
| UK Personal Banking   | 187,056        | 164,121           | 182,305          | 153,999           |
| Ulster Bank Rol       | 27,631         | 23,607            | 25,385           | 21,012            |
| Commercial Banking    | 186,013        | 166,074           | 165,399          | 140,863           |
| Private Banking       | 23,940         | 29,955            | 23,304           | 28,610            |
| RBS International     | 31,537         | 29,642            | 31,738           | 30,330            |
| NatWest Markets       | 303,826        | 286,229           | 263,885          | 246,907           |
| Central items & other | 46,884         | 64,198            | 31,023           | 57,762            |
| <b>Total</b>          | <b>806,887</b> | <b>763,826</b>    | <b>723,039</b>   | <b>679,483</b>    |

## Notes

### 5. Tax

The actual tax credit differs from the expected tax credit computed by applying the standard UK corporation tax rate of 19% (2019 - 19%), as analysed below:

|  | Half year ended       |                       |
|--|-----------------------|-----------------------|
|  | 30 June<br>2020<br>£m | 30 June<br>2019<br>£m |
| <b>(Loss)/profit before tax</b>  | <b>(770)</b>          | <b>2,694</b>          |
| Expected tax credit/(charge)   | <b>146</b>            | (512)                 |
| Losses and temporary differences in period where no deferred tax assets recognised | <b>(38)</b>           | (2)                   |
| Foreign profits taxed at other rates   | <b>(24)</b>           | 5                     |
| UK tax rate change impact  | <b>75</b>             | -                     |
| Items not allowed for tax:   |                       |                       |
| - losses on disposals and write-downs  | <b>(14)</b>           | (46)                  |
| - UK bank levy   | <b>(15)</b>           | (15)                  |
| - regulatory and legal actions   | <b>20</b>             | (5)                   |
| - other disallowable items   | <b>(23)</b>           | (40)                  |
| Non-taxable items:   |                       |                       |
| - Alawwal bank merger gain on disposal   | -                     | 212                   |
| - other non-taxable items  | <b>68</b>             | 26                    |
| Taxable foreign exchange movements   | <b>(2)</b>            | -                     |
| Losses bought forward and utilised   | <b>23</b>             | 21                    |
| (Reduction)/increase in carrying value of deferred tax in respect of:              |                       |                       |
| - UK losses  | <b>(56)</b>           | 215                   |
| - Ireland losses   | <b>(20)</b>           | -                     |
| Banking surcharge  | <b>52</b>             | (155)                 |
| Tax on paid-in equity  | <b>38</b>             | -                     |
| Adjustments in respect of prior periods  | <b>(22)</b>           | 102                   |
| <b>Actual tax credit/(charge)</b>  | <b>208</b>            | <b>(194)</b>          |

At 30 June 2020, NatWest Group has recognised a deferred tax asset of £976 million (31 December 2019 - £1,011 million) and a deferred tax liability of £387 million (31 December 2019 - £266 million). These include amounts recognised in respect of UK trading losses of £799 million (31 December 2019 - £770 million). Under UK tax legislation, these UK losses can be carried forward indefinitely. NatWest Group has considered the carrying value of this asset as at 30 June 2020 and concluded that it is recoverable based on future profit projections.

## Notes

### 6. Profit attributable to non-controlling interests

|  | Half year ended       |                       |
|--|-----------------------|-----------------------|
|  | 30 June<br>2020<br>£m | 30 June<br>2019<br>£m |
| RBS Sempra Commodities LLP                                     | (52)                  | -                     |
| RFS Holdings B.V. Consortium Members (1)                       | -                     | 258                   |
| Other  | (13)                  | 2                     |
| <b>(Loss)/profit attributable to non-controlling interests</b> | <b>(65)</b>           | <b>260</b>            |

Note:

(1) Includes a gain of £274 million recognised on completion of the Alawwal bank merger for half year 2019.

### 7. Trading assets and liabilities

Trading assets and liabilities comprise assets and liabilities held at fair value in trading portfolios.

|                                      | 30 June<br>2020<br>£m | 31 December<br>2019<br>£m |
|--------------------------------------|-----------------------|---------------------------|
| <b>Assets</b>                        |                       |                           |
| Loans                                |                       |                           |
| Reverse repos                        | 18,909                | 24,095                    |
| Collateral given                     | 25,062                | 20,579                    |
| Other loans                          | 3,097                 | 1,947                     |
| <b>Total loans</b>                   | <b>47,068</b>         | <b>46,621</b>             |
| Securities                           |                       |                           |
| Central and local government         |                       |                           |
| - UK                                 | 4,515                 | 4,897                     |
| - US                                 | 4,570                 | 5,458                     |
| - other                              | 12,081                | 14,902                    |
| Financial institutions and corporate | 4,168                 | 4,867                     |
| <b>Total securities</b>              | <b>25,334</b>         | <b>30,124</b>             |
| <b>Total</b>                         | <b>72,402</b>         | <b>76,745</b>             |
| <b>Liabilities</b>                   |                       |                           |
| Deposits                             |                       |                           |
| Repos                                | 23,767                | 27,885                    |
| Collateral received                  | 27,139                | 21,509                    |
| Other deposits                       | 2,092                 | 1,606                     |
| <b>Total deposits</b>                | <b>52,998</b>         | <b>51,000</b>             |
| Debt securities in issue             | 2,084                 | 1,762                     |
| Short positions                      | 20,458                | 21,187                    |
| <b>Total</b>                         | <b>75,540</b>         | <b>73,949</b>             |

## Notes

### 8. Financial instruments: classification

The following tables analyse 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.

|  | MFVTPL <sup>(1)</sup><br>£m | FVOCI <sup>(2)</sup><br>£m | Amortised<br>cost<br>£m | Other<br>assets<br>£m      | Total<br>£m    |
|--|-----------------------------|----------------------------|-------------------------|----------------------------|----------------|
| <b>Assets</b>                                      |                             |                            |                         |                            |                |
| Cash and balances at central banks                 |                             |                            | 100,281                 |                            | 100,281        |
| Trading assets                                     | 72,402                      |                            |                         |                            | 72,402         |
| Derivatives <sup>(3)</sup>                         | 183,419                     |                            |                         |                            | 183,419        |
| Settlement balances                                |                             |                            | 7,806                   |                            | 7,806          |
| Loans to banks - amortised cost <sup>(4)</sup>     |                             |                            | 12,972                  |                            | 12,972         |
| Loans to customers - amortised cost <sup>(5)</sup> |                             |                            | 352,341                 |                            | 352,341        |
| Other financial assets                             | 656                         | 50,445                     | 11,626                  |                            | 62,727         |
| Intangible assets                                  |                             |                            |                         | 6,602                      | 6,602          |
| Other assets                                       |                             |                            |                         | 8,337                      | 8,337          |
| <b>30 June 2020</b>                                | <b>256,477</b>              | <b>50,445</b>              | <b>485,026</b>          | <b>14,939</b>              | <b>806,887</b> |
| <b>31 December 2019</b>                            |                             |                            |                         |                            |                |
| Cash and balances at central banks                 |                             |                            | 77,858                  |                            | 77,858         |
| Trading assets                                     | 76,745                      |                            |                         |                            | 76,745         |
| Derivatives <sup>(3)</sup>                         | 150,029                     |                            |                         |                            | 150,029        |
| Settlement balances                                |                             |                            | 4,387                   |                            | 4,387          |
| Loans to banks - amortised cost <sup>(4)</sup>     |                             |                            | 10,689                  |                            | 10,689         |
| Loans to customers - amortised cost <sup>(5)</sup> |                             |                            | 326,947                 |                            | 326,947        |
| Other financial assets                             | 715                         | 49,283                     | 11,454                  |                            | 61,452         |
| Intangible assets                                  |                             |                            |                         | 6,622                      | 6,622          |
| Other assets                                       |                             |                            |                         | 8,310                      | 8,310          |
| <b>31 December 2019</b>                            | <b>227,489</b>              | <b>49,283</b>              | <b>431,335</b>          | <b>14,932</b>              | <b>723,039</b> |
| <b>Liabilities</b>                                 |                             |                            |                         |                            |                |
|  | Held-for-<br>trading<br>£m  | DFV <sup>(6)</sup><br>£m   | Amortised<br>cost<br>£m | Other<br>liabilities<br>£m | Total<br>£m    |
| Bank deposits <sup>(7)</sup>                       |                             |                            | 21,119                  |                            | 21,119         |
| Customer deposits                                  |                             |                            | 408,268                 |                            | 408,268        |
| Settlement balances                                |                             |                            | 6,895                   |                            | 6,895          |
| Trading liabilities                                | 75,540                      |                            |                         |                            | 75,540         |
| Derivatives <sup>(8)</sup>                         | 179,859                     |                            |                         |                            | 179,859        |
| Other financial liabilities                        |                             | 2,119                      | 47,562                  |                            | 49,681         |
| Subordinated liabilities                           |                             | 734                        | 12,824                  |                            | 13,558         |
| Other liabilities <sup>(9)</sup>                   |                             |                            | 4,146                   | 4,760                      | 8,906          |
| <b>30 June 2020</b>                                | <b>255,399</b>              | <b>2,853</b>               | <b>500,814</b>          | <b>4,760</b>               | <b>763,826</b> |
| <b>31 December 2019</b>                            |                             |                            |                         |                            |                |
| Bank deposits <sup>(7)</sup>                       |                             |                            | 20,493                  |                            | 20,493         |
| Customer deposits                                  |                             |                            | 369,247                 |                            | 369,247        |
| Settlement balances                                |                             |                            | 4,069                   |                            | 4,069          |
| Trading liabilities                                | 73,949                      |                            |                         |                            | 73,949         |
| Derivatives <sup>(8)</sup>                         | 146,879                     |                            |                         |                            | 146,879        |
| Other financial liabilities                        |                             | 2,258                      | 42,962                  |                            | 45,220         |
| Subordinated liabilities                           |                             | 724                        | 9,255                   |                            | 9,979          |
| Other liabilities <sup>(9)</sup>                   |                             |                            | 4,029                   | 5,618                      | 9,647          |
| <b>31 December 2019</b>                            | <b>220,828</b>              | <b>2,982</b>               | <b>450,055</b>          | <b>5,618</b>               | <b>679,483</b> |

#### Notes:

- (1) Mandatory fair value through profit or loss.
- (2) Fair value through other comprehensive income.
- (3) Includes net hedging derivatives of £298 million (31 December 2019 - £202 million).
- (4) Includes items in the course of collection from other banks of £57 million (31 December 2019 - £50 million).
- (5) Includes finance lease receivables.
- (6) Designated as at fair value through profit or loss.
- (7) Includes items in the course of transmission to other banks of nil (31 December 2019 - £2 million).
- (8) Includes net hedging derivatives of £44 million (31 December 2019 - £22 million).
- (9) Includes lease liabilities of £1,781 million (31 December 2019 - £1,823 million).

## Notes

### 8. Financial instruments: classification continued

NatWest Group's financial assets and liabilities include:

|                                     | 30 June<br>2020<br>£m | 31 December<br>2019<br>£m |
|-------------------------------------|-----------------------|---------------------------|
| <b>Reverse repos</b>                |                       |                           |
| Trading assets                      | 18,909                | 24,095                    |
| Loans to banks - amortised cost     | 512                   | 165                       |
| Loans to customers - amortised cost | 17,569                | 10,649                    |
| <b>Repos</b>                        |                       |                           |
| Bank deposits                       | 627                   | 2,597                     |
| Customer deposits                   | 1,337                 | 1,765                     |
| Trading liabilities                 | 23,767                | 27,885                    |

### Carried at fair value - valuation hierarchy

Disclosures relating to the control environment, valuation techniques and related aspects pertaining to financial instruments measured at fair value are included in the NatWest Group plc (formerly the Royal Bank of Scotland Group plc) 2019 Annual Report and Accounts. Valuation, sensitivity methodologies and inputs at 30 June 2020 are consistent with those described in Note 12 to the NatWest Group plc 2019 Annual Report and Accounts.

The tables below show financial instruments carried at fair value on the balance sheet by valuation hierarchy - level 1, level 2 and level 3 and valuation sensitivities for level 3 balances.

|   | 30 June 2020  |                |               | 31 December 2019 |                |               |
|---|---------------|----------------|---------------|------------------|----------------|---------------|
|   | Level 1<br>£m | Level 2<br>£m  | Level 3<br>£m | Level 1<br>£m    | Level 2<br>£m  | Level 3<br>£m |
| <b>Assets</b>   |               |                |               |                  |                |               |
| Trading assets  |               |                |               |                  |                |               |
| Loans   | -             | 46,646         | 422           | -                | 46,172         | 449           |
| Securities  | 17,983        | 7,185          | 166           | 20,865           | 8,704          | 555           |
| Derivatives   | -             | 182,104        | 1,315         | -                | 148,800        | 1,229         |
| Other financial assets                                |               |                |               |                  |                |               |
| Loans   | -             | 269            | 278           | -                | 307            | 58            |
| Securities  | 41,030        | 9,196          | 328           | 41,044           | 8,326          | 263           |
| <b>Total financial assets held at fair value</b>      | <b>59,013</b> | <b>245,400</b> | <b>2,509</b>  | <b>61,909</b>    | <b>212,309</b> | <b>2,554</b>  |
| <b>Liabilities</b>                                    |               |                |               |                  |                |               |
| Trading liabilities                                   |               |                |               |                  |                |               |
| Deposits  | -             | 52,969         | 29            | -                | 50,944         | 56            |
| Debt securities in issue                              | -             | 2,069          | 15            | -                | 1,703          | 59            |
| Short positions                                       | 15,365        | 5,093          | -             | 15,565           | 5,622          | -             |
| Derivatives   | -             | 178,895        | 964           | -                | 145,818        | 1,061         |
| Other financial liabilities                           |               |                |               |                  |                |               |
| Debt securities in issue                              | -             | 1,769          | -             | -                | 2,117          | 141           |
| Other deposits  | -             | 350            | -             | -                | -              | -             |
| Subordinated liabilities                              | -             | 734            | -             | -                | 724            | -             |
| <b>Total financial liabilities held at fair value</b> | <b>15,365</b> | <b>241,879</b> | <b>1,008</b>  | <b>15,565</b>    | <b>206,928</b> | <b>1,317</b>  |

#### Notes:

- 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.
- Transfers between levels are deemed to have occurred at the beginning of the quarter in which the instrument was transferred. There were no significant transfers between level 1 and level 2.
- For an analysis of debt securities held at mandatorily fair value through profit or loss by issuer as well as ratings and derivatives, by type and contract, refer to Capital and Risk management – Credit risk.
- 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

### 8. Financial instruments: carried at fair value - valuation hierarchy continued

|   | 30 June 2020  |                  |                    | 31 December 2019 |                  |                    |
|---|---------------|------------------|--------------------|------------------|------------------|--------------------|
|   | Level 3<br>£m | Favourable<br>£m | Unfavourable<br>£m | Level 3<br>£m    | Favourable<br>£m | Unfavourable<br>£m |
| <b>Assets</b>   |               |                  |                    |                  |                  |                    |
| Trading assets  |               |                  |                    |                  |                  |                    |
| Loans   | 422           | 10               | (10)               | 449              | 10               | (10)               |
| Securities  | 166           | 10               | -                  | 555              | -                | -                  |
| Derivatives   |               |                  |                    |                  |                  |                    |
| Interest rate   | 1,115         | 120              | (120)              | 1,015            | 160              | (160)              |
| Foreign exchange                                      | 82            | 10               | (10)               | 98               | 10               | (10)               |
| Other   | 118           | 10               | (10)               | 116              | 10               | (10)               |
| Other financial assets                                |               |                  |                    |                  |                  |                    |
| Loans   | 278           | 10               | (10)               | 58               | -                | -                  |
| Securities  | 328           | 70               | (10)               | 263              | 80               | (20)               |
| <b>Total financial assets held at fair value</b>      | <b>2,509</b>  | <b>240</b>       | <b>(170)</b>       | <b>2,554</b>     | <b>270</b>       | <b>(210)</b>       |
| <b>Liabilities</b>                                    |               |                  |                    |                  |                  |                    |
| Trading liabilities                                   |               |                  |                    |                  |                  |                    |
| Deposits  | 29            | -                | -                  | 56               | -                | -                  |
| Debt securities in issue                              | 15            | -                | (20)               | 59               | -                | -                  |
| Derivatives   |               |                  |                    |                  |                  |                    |
| Interest rate   | 529           | 70               | (60)               | 630              | 70               | (70)               |
| Foreign exchange                                      | 240           | -                | -                  | 222              | 10               | (10)               |
| Other   | 195           | 10               | (10)               | 209              | 20               | (10)               |
| Other financial liabilities                           |               |                  |                    |                  |                  |                    |
| Debt securities in issue                              | -             | -                | -                  | 141              | 10               | (10)               |
| <b>Total financial liabilities held at fair value</b> | <b>1,008</b>  | <b>80</b>        | <b>(90)</b>        | <b>1,317</b>     | <b>110</b>       | <b>(100)</b>       |

Reasonably plausible alternative assumptions of unobservable inputs are determined based on a specified target level of certainty of 90%. The assessments recognise different favourable and unfavourable valuation movements where appropriate. Each unobservable input within a product is considered separately and sensitivity is reported on an additive basis. Alternative assumptions are determined with reference to all available evidence including consideration of the following: quality of independent pricing information taking into account consistency between different sources, variation over time, perceived tradability or otherwise of available quotes; consensus service dispersion ranges; volume of trading activity and market bias (e.g. one-way inventory); day 1 profit or loss arising on new trades; number and nature of market participants; market conditions; modelling consistency in the market; size and nature of risk; length of holding of position; and market intelligence.

#### Movement in level 3 portfolios

The following table shows the movement in level 3 assets and liabilities.

|   | Half year ended 30 June 2020 |  |                       |                            | Half year ended 30 June 2019 |  |                       |                            |
|---|------------------------------|--|-----------------------|----------------------------|------------------------------|--|-----------------------|----------------------------|
|   | Trading<br>assets (1)<br>£m  | Other<br>financial<br>assets (2)<br>£m | Total<br>assets<br>£m | Total<br>liabilities<br>£m | Trading<br>assets (1)<br>£m  | Other<br>financial<br>assets (2)<br>£m | Total<br>assets<br>£m | Total<br>liabilities<br>£m |
| <b>At 1 January</b>   | <b>2,233</b>                 | <b>321</b>                             | <b>2,554</b>          | <b>1,317</b>               | <b>2,657</b>                 | <b>643</b>                             | <b>3,300</b>          | <b>1,957</b>               |
| Amount recorded in the income statement (3)   | 313                          | (1)                                    | 312                   | 97                         | (113)                        | 4                                      | (109)                 | 260                        |
| Amount recorded in the statement of comprehensive income                                      | -                            | 62                                     | 62                    | -                          | -                            | 75                                     | 75                    | -                          |
| Level 3 transfers in  | 133                          | 207                                    | 340                   | 6                          | 158                          | 2                                      | 160                   | 161                        |
| Level 3 transfers out   | (101)                        | -                                      | (101)                 | (337)                      | (462)                        | (53)                                   | (515)                 | (239)                      |
| Issuances   | -                            | -                                      | -                     | -                          | -                            | -                                      | -                     | 23                         |
| Purchases   | 366                          | 10                                     | 376                   | 100                        | 290                          | 2                                      | 292                   | 216                        |
| Settlements   | (113)                        | -                                      | (113)                 | (14)                       | (73)                         | (6)                                    | (79)                  | (171)                      |
| Sales   | (933)                        | (1)                                    | (934)                 | (164)                      | (249)                        | (157)                                  | (406)                 | (419)                      |
| Foreign exchange and other adjustments  | 5                            | 8                                      | 13                    | 3                          | 3                            | (3)                                    | -                     | 2                          |
| <b>At 30 June</b>   | <b>1,903</b>                 | <b>606</b>                             | <b>2,509</b>          | <b>1,008</b>               | <b>2,211</b>                 | <b>507</b>                             | <b>2,718</b>          | <b>1,790</b>               |
| Amounts recorded in the income statement in respect of balances held at year end - unrealised | 313                          | (1)                                    | 312                   | 97                         | (112)                        | 2                                      | (110)                 | 260                        |

Notes:

- (1) Trading assets comprise assets held at fair value in trading portfolios.
- (2) Other financial assets comprise fair value through other comprehensive income, designated at fair value through profit or loss and other fair value through profit or loss.
- (3) £215 million net gains on trading assets and liabilities (30 June 2019 - £383 million losses) were recorded in income from trading activities. Net gains on other instruments of nil (30 June 2019 - £14 million gains) were recorded in other operating income and interest income as appropriate.

## Notes

### 8. Financial instruments: carried at fair value - valuation hierarchy continued

When valuing financial instruments in the trading book, adjustments are made to mid-market valuations to cover bid-offer spread, funding and credit risk. These adjustments are presented in the table below:

|                           | 30 June<br>2020<br>£m | 31 December<br>2019<br>£m |
|---------------------------|-----------------------|---------------------------|
| Funding - FVA             | 188                   | 244                       |
| Credit - CVA              | 445                   | 386                       |
| Bid - Offer               | 148                   | 165                       |
| Product and deal specific | 170                   | 238                       |
|                           | <b>951</b>            | <b>1,033</b>              |

#### Fair value

- Valuation reserves, comprised of credit valuation adjustments (CVA), funding valuation adjustment (FVA), bid-offer and product and deal specific reserves decreased to £951 million at 30 June 2020 (31 December 2019 – £1,033 million) with an increase in CVA reserves more than offset by reductions in other reserves.
- CVA reserves increased to £445 million at 30 June 2020 (31 December 2019 – £386 million) due to credit spreads widening and increases in positive exposures, driven by interest rate and FX market moves, partially offset by trade novation activity.
- FVA reserves reduced to £188 million at 30 June 2020 (31 December 2019 – £244 million) as the impact of funding spreads widening and the increases in positive exposures were more than offset by increases in negative exposures, credit spreads widening, trade novation activity and a reduction in the types of initial margin posting requirements assessed as part of FVA. The reduction in product and deal specific reserves to £170 million at 30 June 2020 (31 December 2019 - £238 million) was due to certain negative exposures increasing (driven by interest rate and FX market moves), credit spreads widening and trade novation activity.

## Notes

### 8. Financial instruments: carried at fair value - valuation hierarchy continued

#### Financial instruments: fair value of financial instruments not carried at fair value

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

|  | Items where fair value approximates carrying value<br>£bn | Carrying value<br>£bn | Fair value<br>£bn | Fair value hierarchy level |                |                |
|--|---|-----------------------|-------------------|----------------------------|----------------|----------------|
|  |   |                       |                   | Level 1<br>£bn             | Level 2<br>£bn | Level 3<br>£bn |
| <b>30 June 2020</b>                      |   |                       |                   |                            |                |                |
| <b>Financial assets</b>                  |   |                       |                   |                            |                |                |
| Cash and balances at central banks       | 100.3   |                       |                   |                            |                |                |
| Settlement balances                      | 7.8   |                       |                   |                            |                |                |
| Loans to banks                           | 0.1   | 12.9                  | 12.9              | -                          | 7.6            | 5.3            |
| Loans to customers                       |   | 352.3                 | 351.0             | -                          | 17.9           | 333.1          |
| Other financial assets                   |   |                       |                   |                            |                |                |
| Securities                               |   | 11.6                  | 11.8              | 6.2                        | 2.5            | 3.1            |
| <b>Financial liabilities</b>             |   |                       |                   |                            |                |                |
| Bank deposits                            | 4.6   | 16.5                  | 16.5              | -                          | 10.2           | 6.3            |
| Customer deposits                        | 349.3   | 59.0                  | 59.0              | -                          | 7.0            | 52.0           |
| Settlement balances                      | 6.9   |                       |                   |                            |                |                |
| Other financial liabilities              |   |                       |                   |                            |                |                |
| Debt securities in issue                 |   | 47.6                  | 48.0              | -                          | 41.8           | 6.2            |
| Subordinated liabilities                 |   | 12.8                  | 13.4              | -                          | 13.3           | 0.1            |
| Other liabilities - notes in circulation | 2.1   |                       |                   |                            |                |                |
| <b>31 December 2019</b>                  |   |                       |                   |                            |                |                |
| <b>Financial assets</b>                  |   |                       |                   |                            |                |                |
| Cash and balances at central banks       | 77.9  |                       |                   |                            |                |                |
| Settlement balances                      | 4.4   |                       |                   |                            |                |                |
| Loans to banks                           |   | 10.7                  | 10.7              | -                          | 6.2            | 4.5            |
| Loans to customers                       |   | 326.9                 | 324.0             | -                          | 11.0           | 313.0          |
| Other financial assets                   |   |                       |                   |                            |                |                |
| Securities                               |   | 11.5                  | 11.6              | 5.9                        | 2.8            | 2.9            |
| <b>Financial liabilities</b>             |   |                       |                   |                            |                |                |
| Bank deposits                            | 4.1   | 16.4                  | 16.5              | -                          | 12.2           | 4.3            |
| Customer deposits                        | 312.4   | 56.8                  | 56.9              | -                          | 7.5            | 49.4           |
| Settlement balances                      | 4.1   |                       |                   |                            |                |                |
| Other financial liabilities              |   |                       |                   |                            |                |                |
| Debt securities in issue                 |   | 43.0                  | 43.7              | -                          | 38.5           | 5.2            |
| Subordinated liabilities                 |   | 9.3                   | 10.0              | -                          | 9.9            | 0.1            |
| Other liabilities - notes in circulation | 2.2   |                       |                   |                            |                |                |

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 judgments covering prepayments, credit risk and discount rates. Furthermore, there is a wide range of potential valuation techniques. Changes in these assumptions would affect estimated fair values. The fair values reported would not necessarily be realised in an immediate sale or settlement.

## Notes

### 9. Provisions for liabilities and charges

|  | Payment<br>protection<br>insurance <sup>(1)</sup><br>£m | Other<br>customer<br>redress<br>£m | Litigation and<br>other regulatory<br>£m | Other <sup>(2)</sup><br>£m | Total<br>£m |
|--|---|------------------------------------|--|----------------------------|-------------|
| <b>At 1 January 2020</b>                 | 1,156   | 314                                | 426                                      | 781                        | 2,677       |
| ECL impairment charge                    | -   | -                                  | -  | 46                         | 46          |
| Currency translation and other movements | -   | 3                                  | 21                                       | -                          | 24          |
| Charge to income statement               | -   | 13                                 | 98                                       | 17                         | 128         |
| Release to income statement              | (100)   | (8)                                | (17)                                     | (29)                       | (154)       |
| Provisions utilised                      | (197)   | (47)                               | (35)                                     | (100)                      | (379)       |
| <b>At 31 March 2020</b>                  | 859   | 275                                | 493                                      | 715                        | 2,342       |
| ECL impairment charge                    | -   | -                                  | -  | 77                         | 77          |
| Currency translation and other movements | -   | 1                                  | 2  | -                          | 3           |
| Charge to income statement               | 1   | 62                                 | 2  | 134                        | 199         |
| Release to income statement              | (150)   | (7)                                | (4)                                      | (54)                       | (215)       |
| Provisions utilised                      | (204)   | (49)                               | (11)                                     | (106)                      | (370)       |
| <b>At 30 June 2020</b>                   | 506   | 282                                | 482                                      | 766                        | 2,036       |

Notes:

(1) The balance at 30 June 2020 includes provisions held in relation to offers made in 2019 and earlier years of £134 million

(2) Materially comprises provisions relating to property closures and restructuring costs.

There are uncertainties as to the eventual cost of redress in relation to certain provisions contained in the table above. Assumptions relating to these are inherently uncertain and the ultimate financial impact may be different from the amount provided.

#### Payment protection insurance

Over 95% of pre-deadline complaints have been processed which removes uncertainty about the effects of volume and quality in financial estimate. As a result NatWest Group has released £250 million in H1 (of which £100 million was in Q1). NatWest Group continues to complete quality assurance on completed cases, conclude on the remaining small number of complaints and conclude cases with the Financial Ombudsman Service.

## Notes

### 10. Dividends

As announced on 1 April 2020, NatWest Group plc has decided not to undertake interim dividend payments or share buybacks, take no charge in CET1 for foreseeable dividends and to defer decisions on any future shareholder distributions until the end of 2020. In response to a formal request from the Prudential Regulation Authority, the Board has also cancelled the final ordinary and special dividend payments in relation to the 2019 financial year. The Board remains committed to capital returns, will continue to review the situation and will look to resume distributions to ordinary shareholders in due course.

### 11. Loan impairment provisions

#### Loan exposure and impairment metrics

The table below summarises loans and related credit impairment measures on an IFRS 9 basis.

|  | 30 June<br>2020<br>£m  | 31 December<br>2019<br>£m |
|--|------------------------|---------------------------|
| <b>Loans - amortised cost and FVOCI</b>              |                        |                           |
| Stage 1  | 266,444                | 305,502                   |
| Stage 2  | 97,010                 | 27,868                    |
| Stage 3  | 7,034                  | 6,598                     |
| <i>Of which: individual</i>                          | 2,372                  | 2,051                     |
| <i>Of which: collective</i>                          | 4,662                  | 4,547                     |
|  | <b>370,488</b>         | <b>339,968</b>            |
| <b>ECL provisions (1)</b>                            |                        |                           |
| Stage 1  | 469                    | 322                       |
| Stage 2  | 3,025                  | 752                       |
| Stage 3  | 2,860                  | 2,718                     |
| <i>Of which: individual</i>                          | 905                    | 796                       |
| <i>Of which: collective</i>                          | 1,955                  | 1,922                     |
|  | <b>6,354</b>           | <b>3,792</b>              |
| <b>ECL provisions coverage (2, 3)</b>                |                        |                           |
| Stage 1 (%)  | 0.18                   | 0.11                      |
| Stage 2 (%)  | 3.12                   | 2.70                      |
| Stage 3 (%)  | 40.66                  | 41.19                     |
|  | <b>1.72</b>            | <b>1.12</b>               |
|  | <b>Half year ended</b> |                           |
|  | 30 June<br>2020<br>£m  | 30 June<br>2019<br>£m     |
| <b>Impairment losses</b>                             |                        |                           |
| ECL charge (4)                                       | 2,858                  | 323                       |
| Stage 1  | 308                    | (140)                     |
| Stage 2  | 2,150                  | 101                       |
| Stage 3  | 400                    | 362                       |
| <i>Of which: individual</i>                          | 131                    | 170                       |
| <i>Of which: collective</i>                          | 269                    | 192                       |
| <b>ECL loss rate - annualised (basis points) (3)</b> |                        |                           |
| Amounts written off                                  | 154.28                 | 19.88                     |
| <i>Of which: individual</i>                          | 408                    | 452                       |
| <i>Of which: collective</i>                          | 41                     | 243                       |
|  | <b>367</b>             | <b>209</b>                |

#### Notes:

- (1) Includes £8 million (31 December 2019 – £4 million) related to assets classified as FVOCI.
- (2) ECL provisions coverage is calculated as ECL provisions divided by loans.
- (3) 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. The half year ECL charge is annualised by multiplying by two.
- (4) Includes a £5 million charge (30 June 2019 – £30 million charge) related to other financial assets, of which £4 million (30 June 2019 – nil) related to assets classified as FVOCI; and £8 million (30 June 2019 - £28 million) related to contingent liabilities.
- (5) The table above shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to page 90 for Financial instruments within the scope of the IFRS 9 ECL framework for further details. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totalling £99.2 billion and debt securities of £60.5 billion (31 December 2019 – £76.1 billion and £59.4 billion respectively).

## Notes

### 12. Intangible assets

|   | 30 June 2020   |                 |             | 31 December 2019 |                 |             |
|---|----------------|-----------------|-------------|------------------|-----------------|-------------|
|   | Goodwill<br>£m | Other (1)<br>£m | Total<br>£m | Goodwill<br>£m   | Other (1)<br>£m | Total<br>£m |
| <b>Cost</b>   |                |                 |             |                  |                 |             |
| At 1 January  | 9,980          | 2,293           | 12,273      | 18,164           | 2,024           | 20,188      |
| Currency translation and other adjustments            | 2              | -               | 2           | (180)            | 2               | (178)       |
| Acquisition of subsidiaries                           | -              | -               | -           | 1                | -               | 1           |
| Additions   | -              | 133             | 133         | -                | 380             | 380         |
| Disposals and write-off of fully amortised assets (2) | -              | (23)            | (23)        | (8,005)          | (113)           | (8,118)     |
| At 30 June  | 9,982          | 2,403           | 12,385      | 9,980            | 2,293           | 12,273      |
| <b>Accumulated amortisation and impairment</b>        |                |                 |             |                  |                 |             |
| At 1 January  | 4,373          | 1,278           | 5,651       | 12,558           | 1,014           | 13,572      |
| Currency translation and other adjustments            | 2              | 1               | 3           | (180)            | 1               | (179)       |
| Disposals and write-off of fully amortised assets     | -              | (19)            | (19)        | (8,005)          | (72)            | (8,077)     |
| Charge for the year                                   | -              | 141             | 141         | -                | 291             | 291         |
| Impairment of other intangible assets                 | -              | 7               | 7           | -                | 44              | 44          |
| At 30 June  | 4,375          | 1,408           | 5,783       | 4,373            | 1,278           | 5,651       |
| Net book value at 30 June                             | 5,607          | 995             | 6,602       | 5,607            | 1,015           | 6,622       |

Notes:

(1) Principally internally generated software.

(2) Goodwill that arose on the acquisition of ABN AMRO Holding N.V..

Intangible assets are reviewed for indicators of impairment. In 2020 £7 million (2019 - £44 million) of previously capitalised software was impaired primarily as a result of software which is no longer expected to yield future economic benefit.

NatWest Group's goodwill acquired in business combinations, analysed by reportable segment is reviewed annually at 31 December for impairment and, given indicators of potential impairment related to the current economic situation, it was reviewed again at 30 June.

Impairment testing involves the comparison of the carrying value of each cash-generating unit (CGU) with its recoverable amount. The carrying values of the segments reflect the equity allocations made by management which are consistent with NatWest Group's capital targets. Further refinements continue to be made to the approach.

Recoverable amount is the higher of fair value less cost of disposal and value in use. Value in use is the present value of expected future cash flows from the CGU. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants. The recoverable amounts for all CGUs at 31 December 2019 were based on value in use, using management's latest five-year revenue and cost forecasts. At 30 June, the recoverable amounts for all CGUs were based on internally developed scenarios covering a range of anticipated future economic situations to establish management's best estimate of the economic conditions that will exist over the life of the asset. These are discounted cash flow projections of forecast scenarios over five years. The forecast is then extrapolated in perpetuity using a long-term growth rate to compute a terminal value, which comprises the majority of the value in use. The long-term growth rates have been based on expected nominal growth of the CGUs. The pre-tax risk discount rates are based on those observed to be applied to businesses regarded as peers of the CGUs.

Total goodwill was concluded to be recoverable at 31 December 2019 and 30 June 2020. At 30 June, alternative scenarios applied to consider the recoverability of Commercial Banking goodwill indicated that there were the possibilities of partial/full impairment for worse economic outlooks. The conclusion that Commercial Banking goodwill was recoverable reflected the current ECL outlook, management plans for costs and revenues and yield improvement in the external environment. An impairment of Commercial Banking goodwill is likely if there is further economic deterioration or other negative effects on costs and revenues.

#### Critical accounting policy: Goodwill

##### Critical estimates

Impairment testing involves a number of judgemental areas: the preparation of cash flow projections over five years; the long term growth rate used to derive the terminal value; the assessment of discount rates appropriate to each business; estimation of the fair value of the CGUs; and the valuation of separable assets of each business whose goodwill is reviewed.

## Notes

### 12. Intangible assets continued

The key assumptions that are applied across the five year period of the forecast for Commercial Banking and to the terminal calculation, and the recoverable amount that exceeds carrying value is presented below.

|                         | Forecast        |                    |                |                                   | Assumptions                          |                           |                            | Recoverable amount exceeded carrying value<br>£bn |
|-------------------------|-----------------|--------------------|----------------|-----------------------------------|--------------------------------------|---------------------------|----------------------------|---|
|                         | Goodwill<br>£bn | ECL loss rate<br>% | C:I ratio<br>% | Long-term effective tax rate<br>% | Capital requirements CET1 ratio<br>% | Terminal growth rate<br>% | Pre-tax discount rate<br>% |   |
| <b>30 June 2020</b>     |                 |                    |                |                                   |                                      |                           |                            |   |
| Commercial Banking      | 2.6             | 0.36               | 58.7           | 27.0                              | 11.5                                 | 1.6                       | 13.7                       | 1.6   |
| <b>31 December 2019</b> |                 |                    |                |                                   |                                      |                           |                            |   |
| Commercial Banking      | 2.6             | 0.29               | 53.8           | 25.0                              | 12.0                                 | 1.6                       | 13.4                       | 4.1   |

The impact on Commercial Banking VIU of reasonably possible changes to key assumptions is presented below. This reflects the sensitivity of the VIU to each key assumption on its own. It is possible that more than one favourable and/or unfavourable change may occur at the same time.

|                                    | Favourable change |     | Unfavourable change |       | Change to reduce headroom to nil |  |
|------------------------------------|-------------------|-----|---------------------|-------|----------------------------------|--|
|                                    | Increase in VIU   |     | Decrease in VIU     |       |                                  |  |
| <b>30 June 2020</b>                | %                 | £bn | %                   | £bn   | %                                |  |
| ECL loss rates                     | (0.16)            | 0.7 | 0.10                | (0.9) | 0.17                             |  |
| Cost:income ratio                  | (1.0)             | 2.1 | 4.5                 | (1.5) | 4.6                              |  |
| Forecast income                    | 5.0               | 1.8 | (5.0)               | (1.8) | (4.3)                            |  |
| Effective tax rate                 | (1.0)             | 0.2 | 1.0                 | (0.2) | 8.3                              |  |
| Capital requirements - CET 1 ratio | (1.0)             | 0.1 | 1.0                 | (0.1) | 22.3                             |  |
| Terminal growth rate               | 1.0               | 0.7 | (1.0)               | (0.5) | (3.9)                            |  |
| Pre-tax discount rate              | (1.0)             | 1.4 | 1.0                 | (1.1) | 1.4                              |  |
| <b>31 December 2019</b>            |                   |     |                     |       |                                  |  |
| ECL loss rates                     | (0.16)            | 1.6 | 0.10                | (1.0) | 0.41                             |  |
| Cost:income ratio                  | (1.0)             | 1.6 | 4.5                 | (0.7) | 12.6                             |  |
| Forecast income                    | 5.0               | 2.1 | (5.0)               | (2.1) | (9.8)                            |  |
| Effective tax rate                 | (1.0)             | 0.2 | 1.0                 | (0.2) | 17.1                             |  |
| Capital requirements - CET 1 ratio | (1.0)             | 0.2 | 1.0                 | (0.2) | 22.2                             |  |
| Terminal growth rate               | 1.0               | 0.8 | (1.0)               | (0.7) | (3.1)                            |  |
| Pre-tax discount rate              | (1.0)             | 2.3 | 1.0                 | (1.8) | 2.7                              |  |

### 13. 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 2020. Although NatWest Group is exposed to credit risk in the event of a customer's failure to meet its obligations, the amounts shown do not, and are not intended to, provide any indication of NatWest Group's expectation of future losses.

|  | 30 June 2020<br>£m | 31 December 2019<br>£m |
|--|--------------------|------------------------|
| Guarantees   | 2,457              | 2,757                  |
| Other contingent liabilities                           | 2,388              | 2,478                  |
| Standby facilities, credit lines and other commitments | 119,469            | 119,760                |
| <b>Contingent liabilities and commitments</b>          | <b>124,314</b>     | <b>124,995</b>         |

Contingent liabilities arise in the normal course of NatWest Group's business; credit exposure is subject to the bank's normal controls.

## Notes

### 14. Litigation, investigations and reviews

NatWest Group plc (formerly The Royal Bank of Scotland Group plc) and certain members of NatWest Group are party to legal proceedings and the subject of investigation and other regulatory and governmental action ('Matters') in the United Kingdom (UK), the United States (US), the European Union (EU) and other jurisdictions.

NatWest 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 proceedings and investigations, 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 investigations or as a result of adverse impacts or restrictions on NatWest 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. NatWest 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 NatWest 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 investigations, even for those Matters for which NatWest 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 NatWest Group has recognised. Where (and as far as) liability cannot be reasonably estimated, no provision has been recognised. NatWest 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 NatWest Group's litigation, investigations and reviews, see the Risk Factor relating to legal, regulatory and governmental actions and investigations set out on page 293 of NatWest Group's 2019 Annual Report & Accounts.

#### Litigation

##### Residential mortgage-backed securities (RMBS) litigation in the US

NatWest Group companies continue to defend RMBS-related claims in the US in which plaintiffs allege that certain disclosures made in connection with the relevant offerings of RMBS contained materially false or misleading statements and/or omissions regarding the underwriting standards pursuant to which the mortgage loans underlying the RMBS were issued. The remaining RMBS lawsuits against NatWest Group companies consist of cases filed by the Federal Home Loan Bank of Seattle and the Federal Deposit Insurance Corporation that together involve the issuance of less than US\$1 billion of RMBS issued primarily from 2005 to 2007. In addition, NatWest Markets Securities Inc. (NWMSI) previously agreed to settle a purported RMBS class action entitled *New Jersey Carpenters Health Fund v. Novastar Mortgage Inc. et al.* for US\$55.3 million. This was paid into escrow pending court approval of the settlement, which was granted in March 2019, but which is now the subject of an appeal by a class member who does not want to participate in the settlement.

##### London Interbank Offered Rate (LIBOR) and other rates litigation

NWM Plc and certain other members of NatWest Group, including NatWest Group plc, are defendants in a number of class actions and individual claims pending in the United States District Court for the Southern District of New York (SDNY) with respect to the setting of LIBOR and certain other benchmark interest rates. The complaints allege that certain members of NatWest Group and other panel banks violated various federal laws, including the US commodities and antitrust laws, and state statutory and common law, as well as contracts, by manipulating LIBOR and prices of LIBOR-based derivatives in various markets through various means.

Several class actions relating to USD LIBOR, as well as more than two dozen non-class actions concerning USD LIBOR, are part of a co-ordinated proceeding in the SDNY. In December 2016, the SDNY held that it lacks personal jurisdiction over

## Notes

### 14. Litigation, investigations and reviews continued

NWM Plc with respect to certain claims. As a result of that decision, all NatWest Group companies have been dismissed from each of the USD LIBOR-related class actions (including class actions on behalf of over-the-counter plaintiffs, exchange-based purchaser plaintiffs, bondholder plaintiffs, and lender plaintiffs), but seven non-class cases in the co-ordinated proceeding remain pending against NatWest Group defendants. The dismissal of NatWest Group companies for lack of personal jurisdiction is the subject of a pending appeal to the United States Court of Appeals for the Second Circuit. In March 2020, NatWest Group companies finalised a settlement resolving the class action on behalf of bondholder plaintiffs (those who held bonds issued by non-defendants on which interest was paid from 2007 to 2010 at a rate expressly tied to USD LIBOR). The amount of the settlement (which was covered by an existing provision) has been paid into escrow pending court approval of the settlement.

Among the non-class claims dismissed by the SDNY in December 2016 were claims that the Federal Deposit Insurance Corporation (FDIC) had asserted on behalf of certain failed US banks. In July 2017, the FDIC, on behalf of 39 failed US banks, commenced substantially similar claims against NatWest Group companies and others in the High Court of Justice of England and Wales. The action alleges that the defendants breached English and European competition law, as well as asserting common law claims of fraud under US law.

In addition, there are two class actions relating to JPY LIBOR and Euroyen TIBOR, both pending before the same judge in the SDNY. In the first class action, which relates to Euroyen TIBOR futures contracts, the court dismissed the plaintiffs' antitrust claims in March 2014, but declined to dismiss their claims under the Commodity Exchange Act for price manipulation. The Commodity Exchange Act claims are now the subject of a further motion to dismiss on the ground that they are impermissibly extraterritorial. The second class action relates to other derivatives allegedly tied to JPY LIBOR and Euroyen TIBOR. The court dismissed that case in March 2017 on the ground that the plaintiffs lack standing. However, the United States Court of Appeals reinstated the claims on 1 April 2020, and the case has returned to the SDNY for further litigation.

In addition to the above, five other class action complaints were filed against NatWest Group companies in the SDNY, each relating to a different reference rate. The SDNY dismissed all claims against NWM Plc in the case relating to Euribor for lack of personal jurisdiction in February 2017. The SDNY dismissed, for various reasons, the case relating to the Singapore Interbank Offered Rate and Singapore Swap Offer Rate on 26 July 2019, the case relating to Pound Sterling LIBOR on 16 August 2019, and the case relating to Swiss Franc LIBOR on 16 September 2019. Plaintiffs are appealing each of these four dismissals to the United States Court of Appeals for the Second Circuit. In the fifth class action, which relates to the Australian Bank Bill Swap Reference Rate, the SDNY on 13 February 2020 declined to dismiss the amended complaint as against NWM Plc and certain other defendants, but dismissed it as to other members of NatWest Group (including NatWest Group plc). The claims against non-dismissed defendants (including NWM Plc) are now proceeding in discovery.

NWM Plc has also been named as a defendant in a motion to certify a class action relating to LIBOR in the Tel Aviv District Court in Israel. NWM Plc filed a motion for cancellation of service, which was granted on 28 July 2020. That decision may be appealed, and the claimants may seek to re-raise the claims in the future, in which case NWM Plc may seek to file other potentially dispositive motions.

In January 2019, a class action antitrust complaint was filed in the SDNY 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, NWM Plc, NWMSI and NWB Plc. The defendants made a motion to dismiss this case, which was granted by the court on 26 March 2020. Plaintiffs' appeal of the dismissal is pending in the United States Court of Appeals for the Second Circuit.

#### FX antitrust litigation

NWM Plc, NWMSI and / or NatWest Group plc are defendants in several cases relating to NWM Plc's foreign exchange (FX) business, each of which is pending before the same federal judge in the SDNY. In 2015, NWM Plc paid US\$255 million to settle the consolidated antitrust class action on behalf of persons who entered into over-the-counter FX transactions with defendants or who traded FX instruments on exchanges. That settlement received final court approval in August 2018. In November 2018, some members of the settlement class who opted out of the settlement filed their own non-class complaint in the SDNY asserting antitrust claims against NWM Plc, NWMSI and other banks. Those opt-out claims are proceeding in discovery. In December 2018, some of the same claimants, as well as others, filed proceedings in the High Court of Justice of England and Wales, asserting competition claims against NWM Plc and several other banks. The claim was served in April 2019.

## Notes

### 14. Litigation, investigations and reviews continued

Two other FX-related class actions remain pending in the SDNY. First, there is a class action on behalf of 'consumers and end-user businesses,' which is proceeding against NWM Plc and others in discovery and the class certification phase. Second, there is a class action on behalf of 'indirect purchasers' of FX instruments (which plaintiffs define as persons who transacted FX instruments with retail foreign exchange dealers that transacted directly with defendant banks). Parties in the second class action executed a settlement agreement in May 2020. NWM Plc has paid the settlement (which was covered by an existing provision) into escrow pending court approval of the settlement.

In May 2019, a class action was filed in the Federal Court of Australia against NWM Plc and other banks on behalf of persons who bought or sold currency through FX spots or forwards between 1 January 2008 and 15 October 2013 with a total transaction value exceeding AUS \$0.5 million. NatWest Group plc has been named in the action as a 'cartel party', but is not a defendant. The claim was served in June 2019.

On 29 July and 11 December 2019, two separate applications seeking opt-out collective proceedings orders were filed in the UK Competition Appeal Tribunal against NatWest Group plc, NWM Plc and other banks. Both applications have been brought on behalf of persons who, between 18 December 2007 and 31 January 2013, entered into a relevant FX spot or outright forward transaction in the EEA with a relevant financial institution or on an electronic communications network. A hearing has been scheduled for March 2021 to determine class certification and which of the two opt-out applications should be permitted to represent the class.

Two motions to certify FX-related class actions were filed in the Tel Aviv District Court in Israel in September and October 2018, and were subsequently consolidated into one motion. The consolidated motion, which names NatWest Group plc as the defendant, was served on NatWest Group plc on 26 May 2020. NatWest Group plc intends to file a motion for cancellation of service.

Certain other foreign exchange transaction related claims have been or may be threatened. NatWest Group cannot predict whether any of these claims will be pursued, but expects that some may.

### Government securities antitrust litigation

NWMSI and certain other US broker-dealers are defendants in a consolidated antitrust class action pending in the SDNY on behalf of persons who transacted in US Treasury securities or derivatives based on such instruments, including futures and options. The plaintiffs allege that defendants rigged the US Treasury securities auction bidding process to deflate prices at which they bought such securities and colluded to increase the prices at which they sold such securities to plaintiffs. The defendants' motion to dismiss this matter remains pending.

Class action antitrust claims commenced in March 2019 are pending in the SDNY against NWM Plc, NWMSI and other banks in respect of Euro-denominated bonds issued by European central banks (EGBs). The complaint alleges a conspiracy among dealers of EGBs to widen the bid-ask spreads they quoted to customers, thereby increasing the prices customers paid for the EGBs or decreasing the prices at which customers sold the bonds. The class consists of those who purchased or sold EGBs in the US between 2007 and 2012. The defendants filed a motion to dismiss this matter, which was granted by the court in respect of NWM Plc and NWMSI on 23 July 2020, subject to plaintiffs attempting to remedy the pleading deficiencies identified by the court through an amended complaint.

### Swaps antitrust litigation

NWM Plc and other members of NatWest Group, including NatWest Group plc, as well as a number of other interest rate swap dealers, are defendants in several cases pending in the SDNY alleging violations of the US antitrust laws in the market for interest rate swaps. There is a consolidated class action complaint on behalf of persons who entered into interest rate swaps with the defendants, as well as non-class action claims by three swap execution facilities (TeraExchange, Javelin, and trueEx). The plaintiffs allege that the swap execution facilities would have successfully established exchange-like trading of interest rate swaps if the defendants had not unlawfully conspired to prevent that from happening through boycotts and other means. Discovery in these cases is complete, and the plaintiffs' motion for class certification remains pending.

In addition, in June 2017, TeraExchange filed a complaint against NatWest Group companies, including NatWest Group plc, as well as a number of other credit default swap dealers, in the SDNY. TeraExchange alleges it would have established exchange-like trading of credit default swaps if the defendant dealers had not engaged in an unlawful antitrust conspiracy. In October 2018, the court dismissed all claims against NatWest Group companies.

## Notes

### 14. Litigation, investigations and reviews continued

#### Odd lot corporate bond trading antitrust litigation

NWMSI is the subject of a class action antitrust complaint filed in the SDNY against NWMSI and several other securities dealers. The complaint alleges that, from August 2006 to the present, the defendants conspired artificially to widen spreads for odd lots of corporate bonds bought or sold in the United States secondary market and to boycott electronic trading platforms that would have allegedly promoted pricing competition in the market for such bonds. The schedule in the case contemplates that defendants will make a motion to dismiss the complaint in this matter in September 2020.

#### Madoff

NWM N.V. is a defendant in two actions filed by Irving Picard, as trustee for the bankruptcy estates of Bernard L. Madoff and Bernard L. Madoff Investment Securities LLC, in bankruptcy court in New York. In both cases, the trustee alleges that certain transfers received by NWM N.V. amounted to fraudulent conveyances that should be clawed back for the benefit of the Madoff estate.

In the primary action, filed in December 2010, the trustee is seeking to clawback a total of US\$276.3 million in redemptions that NWM N.V. allegedly received from certain Madoff feeder funds and certain swap counterparties. On 31 March 2020, the bankruptcy court denied the trustee's request for leave to amend its complaint to include additional allegations against NWM N.V., holding that, even with the proposed amendments, the complaint would fail as a matter of law to state a valid claim against NWM N.V. The trustee has commenced an appeal of the bankruptcy court's decision. In the second action, filed in October 2011, the trustee seeks to recover an additional US\$21.8 million. In November 2016, the bankruptcy court dismissed this case on international comity grounds, and that decision was appealed. In February 2019, the United States Court of Appeals for the Second Circuit reversed the bankruptcy court's decision and the case is now returning to the bankruptcy court for further proceedings.

#### Interest rate hedging products and similar litigation

NatWest Group continues to deal with a small number of active litigation claims in the UK relating to the alleged mis-selling of interest rate hedging products.

Separately, NWM Plc is defending claims filed in France by three French local authorities relating to structured interest rate swaps. NWM N.V. was named as a co-defendant in two of the three claims, and has now been dismissed from one of them. The plaintiffs allege, among other things, that the swaps are void for being illegal transactions, that they were mis-sold, and that information / advisory duties were breached. Of the three claims, one is being appealed to the Supreme Court, one has been remitted from the Supreme Court to the Court of Appeal for reconsideration of one aspect, and judgment in the third was granted from the lower court in favour of NWM Plc on 2 July 2020.

#### EUA trading litigation

HMRC issued a tax assessment in 2012 against NatWest Group plc for approximately £86 million regarding a value-added-tax (VAT) matter in relation to the trading of European Union Allowances (EUAs) by a joint venture subsidiary in 2009. NatWest Group plc has lodged an appeal, which is still to be heard, before the First-tier Tribunal (Tax), a specialist tax tribunal, challenging the assessment (the 'Tax Dispute'). In the event that the assessment is upheld, interest and costs would be payable, and a penalty of up to 100 per cent of the VAT held to have been legitimately denied by HMRC could also be levied. Separately, NWM Plc was a named defendant in civil proceedings before the High Court of Justice of England and Wales brought in 2015 by ten companies (all in liquidation) (the 'Liquidated Companies') and their respective liquidators (together, 'the Claimants'). The Liquidated Companies previously traded in EUAs in 2009 and were alleged to be defaulting traders within (or otherwise connected to) the EUA supply chains forming the subject of the Tax Dispute. The Claimants claimed approximately £71.4 million plus interest and costs and alleged that NWM Plc dishonestly assisted the directors of the Liquidated Companies in the breach of their statutory duties and/or knowingly participated in the carrying on of the business of the Liquidated Companies with intent to defraud creditors. The trial in that matter concluded in July 2018 and judgment was issued on 10 March 2020. The court held that NWM Plc and Mercuria Energy Europe Trading Limited were liable for dishonestly assisting and knowingly being a party to fraudulent trading during a seven business day period in 2009, with damages, interest and costs still to be determined by the court. NWM Plc is appealing the judgment.

#### US Anti-Terrorism Act litigation

NWB Plc is defending 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.

## Notes

### 14. Litigation, investigations and reviews continued

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. The plaintiffs' appeal of the judgment to the United States Court of Appeals for the Second Circuit is pending.

NWM N.V. and certain other financial institutions are defendants in several actions pending in the United States District Courts for the Eastern and Southern Districts of New York, filed by a number of US nationals (or their estates, survivors, or heirs), most of whom are or were US military personnel, who were killed or injured in attacks in Iraq between 2003 and 2011. NWM Plc is also a defendant in some of these cases.

The attacks at issue in the cases were allegedly perpetrated by Hezbollah and certain Iraqi terror cells allegedly funded by the Islamic Republic of Iran. According to the plaintiffs' allegations, the defendants are liable for damages arising from the attacks because they allegedly conspired with Iran and certain Iranian banks to assist Iran in transferring money to Hezbollah and the Iraqi terror cells, in violation of the US Anti-Terrorism Act, by agreeing to engage in 'stripping' of transactions initiated by the Iranian banks so that the Iranian nexus to the transactions would not be detected.

The first of these actions was filed in the United States District Court for the Eastern District of New York in November 2014. On 16 September 2019, the district court dismissed the case, finding that the claims were deficient for several reasons, including lack of sufficient allegations as to the alleged conspiracy and causation. The plaintiffs are appealing the decision to the United States Court of Appeals for the Second Circuit. Another action, filed in the SDNY in 2017, was dismissed in March 2019 on similar grounds. The dismissal is subject to appeal by the plaintiffs. Other follow-on actions that are substantially similar to the two that have now been dismissed are pending in the same courts.

#### Securities underwriting litigation

NWMSI is an underwriter defendant in several securities class actions in the US in which plaintiffs generally allege that an issuer of public debt or equity securities, as well as the underwriters of the securities (including NWMSI), are liable to purchasers for misrepresentations and omissions made in connection with the offering of such securities.

#### Investigations and reviews

NatWest Group's businesses and financial condition can be affected by the actions of various governmental and regulatory authorities in the UK, the US, the EU and elsewhere. NatWest Group has 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, business conduct, competition / anti-trust, anti-bribery, anti-money laundering and sanctions regimes.

The NatWest Markets business in particular has been providing, and continues to provide, information regarding a variety of matters, including, for example, the setting of benchmark rates and related derivatives trading, conduct in the foreign exchange market, and various issues relating to the issuance, underwriting, and sales and trading of fixed-income securities, including structured products and government securities, some of which have resulted, and others of which may result, in investigations or proceedings.

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 NatWest Group, remediation of systems and controls, public or private censure, restriction of NatWest 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 NatWest Group, its business, authorisations and licences, reputation, results of operations or the price of securities issued by it.

NatWest Group is co-operating fully with the investigations and reviews described below.

#### US investigations relating to fixed-income securities

In the US, NatWest Group companies have in recent years been involved in investigations relating to, among other things, issuance, underwriting and trading in RMBS and other mortgage-backed securities and collateralised debt obligations (CDOs). Investigations by the US Department of Justice (DoJ) and several state attorneys general relating to the issuance and underwriting of RMBS were previously resolved. Certain other state attorneys general have sought information regarding similar issues, and NatWest Group is aware that at least one such investigation is ongoing.

## Notes

### 14. Litigation, investigations and reviews continued

In October 2017, NWMSI entered into a non-prosecution agreement (NPA) with the United States Attorney for the District of Connecticut (USAO) in connection with alleged misrepresentations to counterparties relating to secondary trading in various forms of asset-backed securities. In the NPA, the USAO agreed not to file criminal charges relating to certain conduct and information described in the NPA, conditioned on NWMSI and affiliated companies complying with the NPA's reporting and conduct requirements during its term, including by not engaging in conduct during the NPA that the USAO determines was a felony under federal or state law or a violation of the anti-fraud provisions of the United States securities law.

The NatWest Markets business is currently responding to a separate criminal investigation by the USAO and DoJ concerning unrelated trading by certain NatWest Markets former traders involving alleged spoofing. The NPA (referred to above) has been extended as the criminal investigation has progressed and related discussions with the USAO and the DoJ, including relating to the impact of such alleged conduct on the status of the NPA and the potential consequences thereof, have been ongoing. The duration and outcome of these matters remain uncertain, including in respect of whether settlement may be reached. Material adverse collateral consequences, in addition to further substantial costs and the recognition of further provisions, may occur depending on the outcome of the investigations, as further described in the Risk Factor relating to legal, regulatory and governmental actions and investigations set out on page 293 of NatWest Group's 2019 Annual Report & Accounts.

#### Foreign exchange related investigations

In 2014 and 2015, NWM Plc paid significant penalties to resolve investigations into its FX business by the FCA, the CFTC, the DoJ, and the Board of Governors of the Federal Reserve System (Federal Reserve). The settlement included a cease and desist order, which was terminated by the Federal Reserve with effect from 12 February 2020. In May and June 2019, NatWest Group plc and NWM Plc reached settlements totalling approximately EUR 275 million in connection with the EC and certain other related competition law investigations into FX trading. NWM Plc continues to co-operate with ongoing investigations from competition authorities on similar issues relating to past FX trading. The exact timing and amount of future financial penalties, related risks and collateral consequences remain uncertain and may be material.

#### 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.

NatWest Group's remaining provisions in relation to these matters at 30 June 2020 were £72 million.

#### Investment advice review

As a result of an FSA review in 2013, the FCA required NatWest Group to carry out a past business review and customer contact exercise on a sample of historic customers who received investment advice on certain lump sum products, during the period from March to December 2012. The review was conducted under section 166 of the Financial Services and Markets Act 2000. Redress was paid to certain customers in that sample group.

NatWest Group later agreed with the FCA that it would carry out a wider review/remediation exercise relating to certain investment, insurance and pension sales from 1 January 2011 to 1 April 2015. That exercise is now complete. Phase 2 (covering sales in 2010) started in April 2018 and, with the exception of a small cohort of former customers for whom there is an extended completion date, was materially completed by the end of 2019, with full completion and formal closure expected by the end of 2020.

In addition, NatWest Group agreed with the FCA that it would carry out a remediation exercise, for a specific customer segment who were sold a particular structured product. Redress was paid to certain customers who took out the structured product. This remediation activity was completed in December 2019.

NatWest Group's remaining provisions in relation to these matters at 30 June 2020 were £6 million.

## Notes

### 14. Litigation, investigations and reviews continued

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. NatWest Group is co-operating with the Skilled Person's review, which is ongoing.

#### 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 Money Laundering Regulations 2007 in relation to certain customers. There are currently two areas under review: (1) compliance with Money Laundering Regulations in respect of Money Service Business customers; and (2) the Suspicious Transactions regime in relation to the events surrounding particular customers. The investigations in both areas are assessing both criminal and civil culpability. NatWest Group is co-operating with the investigations, including responding to information requests from the FCA.

#### Systematic Anti-Money Laundering Programme assessment

In December 2018, the FCA commenced a Systematic Anti-Money Laundering Programme assessment of NatWest Group. The FCA provided its written findings to NatWest Group in June 2019, and NatWest Group responded on 8 August 2019. On 28 August 2019, the FCA instructed NatWest Group to appoint a Skilled Person 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 is underway and the FCA has indicated that it intends to provide updates on the remedies in due course.

#### Response to reports concerning certain historic Russian and Lithuanian transactions

Media coverage in March 2019 highlighted an alleged money laundering scheme involving Russian and Lithuanian entities between 2006 and 2013. The media reports alleged that certain European banks, including ABN AMRO and at least one US bank, were involved in processing certain transactions associated with this scheme. NatWest Group has responded to regulatory requests for information.

#### Review and investigation of treatment of tracker mortgage customers in Ulster Bank Ireland DAC

In December 2015, correspondence was received from the CBI setting out an industry examination framework in respect of the sale of tracker mortgages from c.2001 to date. The redress and compensation phase (phase 3) has now concluded, although an appeals process is currently anticipated to run until at least the end of June 2021. NatWest Group has made provisions totalling €322 million (£293 million), of which €277 million (£252 million) had been utilised by 30 June 2020 in respect of redress and compensation.

In April 2016, the CBI commenced an investigation alleging that it suspected UBI DAC of breaching specified provisions of the Consumer Protection Code 2006 in its treatment of certain tracker mortgage customers during the period 2006-2008, which is ongoing. UBI DAC identified further legacy business issues, as an extension to the tracker mortgage review. These remediation programmes are ongoing. NatWest Group has made provisions of €164 million (£149 million), of which €134 million (£122 million) had been utilised by 30 June 2020 for these programmes.

## Notes

### 15. 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 the NatWest Group. The NatWest Group enters into transactions with many of these bodies.

#### Bank of England facilities

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

#### Other related parties

(a) In their roles as providers of finance, NatWest Group companies provide development and other types of capital support to businesses. These investments are made in the normal course of business. 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) The NatWest Group recharges The NatWest Group Pension Fund with the cost of administration services incurred by it. The amounts involved are not material to the NatWest Group.

Full details of the NatWest Group's related party transactions for the year ended 31 December 2019 are included in the NatWest Group plc (formerly The Royal Bank of Scotland Group plc) 2019 Annual Report & Accounts.

### 16. Parent Company Balance Sheet

At each reporting date, the company assesses whether there is any indication that its investment in a subsidiary is impaired. If any such indication exists, the company undertakes an impairment test by comparing the carrying value of the investment in the subsidiary with its estimated recoverable amount. The recoverable amount of an investment in a subsidiary is the higher of its fair value less cost to sell and its value in use. Impairment testing inherently involves a number of judgments: the choice of appropriate discount and growth rates; and the estimation of fair value.

At 30 June, an impairment of £9 billion (2019 - £1.5 billion) has been recognised in the parent company balance sheet. The parent company balance sheet is not presented. The investment in NatWest Holdings Limited was impaired to net realisable value, as value in use fell below the net realisable value. This reduces the distributable reserves of the company from £36.5 billion to £26.8 billion. The 2019 impairment mainly related to the company's investment in NWM Plc due to the decline in net realisable value as a result of challenging market conditions.

Future increases in the net realisable value or value in use of a subsidiary may permit a reversal of this impairment, while falls in the recoverable amount will result in further impairments.

### 17. Post balance sheet events

Other than as disclosed in this document there have been no significant events between 30 June 2020 and the date of approval of this announcement which would require a change to, or additional disclosure, in the announcement.

### 18. Date of approval

This announcement was approved by the Board of Directors on 30 July 2020.

## **Independent review report to NatWest Group plc (formerly The Royal Bank of Scotland Group plc)**

We have been engaged by NatWest Group plc (“the Company”) to review the condensed consolidated financial statements in the half-yearly financial report for the six months ended 30 June 2020 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, related Notes 1 to 18, and the Capital and risk management disclosures for those identified as within the scope of our review, (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.

This report is made solely to the Company 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 Company, for our work, for this report, or for the conclusions we have formed.

### **Directors' responsibilities**

The half-yearly financial report is the responsibility of, and has been approved by, 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.

As disclosed in Note 1, the annual financial statements of the Company are prepared in accordance with IFRSs as adopted by the European Union. The condensed consolidated financial statements included in this half-yearly financial report have been prepared in accordance with International Accounting Standard 34, ‘Interim Financial Reporting’, as adopted by the European Union.

### **Our responsibility**

Our responsibility is to express to the Company a conclusion on the condensed consolidated financial statements in the half-yearly financial report based on our review.

### **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 ‘Review of Interim Financial Information Performed by the Independent Auditor of the Entity’ issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, 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.

### **Conclusion**

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 2020 are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

### **Ernst & Young LLP**

Statutory Auditor  
London, United Kingdom  
30 July 2020

## NatWest Group plc Summary Risk Factors

### Summary of principal risks and uncertainties

Set out below is a summary of the principal risks and uncertainties for the remaining six months of the financial year which could adversely affect NatWest 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 281 to 295 of the NatWest Group plc (formerly The Royal Bank of Scotland Group plc) 2019 Annual Report and Accounts, on pages 286 to 300 of its Form 20-F and pages 29-30 of its Q1 2020 IMS which should be read together with NatWest Group's other public disclosures. Any of the risks identified may have a material adverse effect on NatWest Group's business, operations, financial condition or prospects.

### Economic and political risk

- The direct and indirect effects of the Covid-19 pandemic are having and are likely to continue to have a material adverse impact on NatWest Group's business, results of operations and outlook and may affect its strategy, its ability to meet its targets and achieve its strategic objectives.
- Prevailing uncertainty regarding the terms of the UK's withdrawal from the European Union has adversely affected and will continue to adversely affect NatWest Group's operating environment.
- NatWest Group faces increased political and economic risks and uncertainty in the UK and global markets, including in respect of various forms of governmental, legal or regulatory financial assistance and/or stimulus designed to support an economic recovery (for example, temporary insolvency relief for distressed borrowers). There is also uncertainty as to whether the mandated governmental schemes (for example, mortgage repayment holidays) announced earlier this year may be extended, discontinued or changed. Any of the above may have a negative impact on the economy and on NatWest Group.
- Changes in interest rates have significantly affected and will continue to affect NatWest Group's business and results. Further decreases in interest rates and/or continued sustained low or negative interest rates would put increased pressure on NatWest Group's net interest margins and adversely affect NatWest Group's business, results of operations and outlook.
- NatWest Group expects to face significant risks in connection with climate change and the transition to a low carbon economy which may adversely impact NatWest Group.
- HM Treasury (or UKGI on its behalf) could exercise a significant degree of influence over NatWest Group and further offers or sales of NatWest Group's shares held by HM Treasury may affect the price of securities issued by NatWest Group.
- Changes in foreign currency exchange rates may affect NatWest Group's business, results of operations and outlook.

### Financial resilience risk

- NatWest Group may not meet targets, including as a result of the direct and indirect effects of the Covid-19 pandemic.
- NatWest Group currently holds £5.6 billion in goodwill which relies on management's assumptions on future profitability. Changes in such assumptions may result in the carrying balance being impaired, which could have a material adverse effect on NatWest Group's business, results of operations and outlook. Goodwill in Commercial Banking (currently £2.6 billion) is particularly susceptible to impairment based on changes in its assumed future profitability.
- There is no certainty as to when NatWest Group will be in a position to resume discretionary capital distributions (including dividends to shareholders). On 31 March 2020, NatWest Group announced in response to a request from the PRA that it was cancelling dividend payments in relation to the 2019 financial year, that it would not undertake quarterly or interim dividend payments or share buybacks, and would defer decisions on any future ordinary shareholder distributions until the end of 2020. It remains uncertain as to whether the PRA will make further similar requests in the future, or if it will expand the scope of such requests, which may further hinder discretionary capital distributions.
- NatWest Group operates in markets that are highly competitive, with increasing competitive pressures and technology disruption.
- NatWest Group has significant exposure to counterparty and borrower risk, which has increased materially particularly as a result of the direct and indirect effects of the Covid-19 pandemic on borrower counterparties and other borrowers.
- NatWest Group may not meet the prudential regulatory requirements for capital and MREL, or manage its capital effectively, which could trigger the execution of certain management actions or recovery options.
- NatWest Group is subject to Bank of England oversight in respect of resolution, and NatWest Group could be adversely affected should the Bank of England deem NatWest Group's preparations to be inadequate.
- NatWest Group may not be able to adequately access sources of liquidity and funding and NatWest Group may be required to adapt its funding plan.
- Any reduction in the credit rating and/or outlooks assigned to NatWest Group plc, any of its subsidiaries or any of their respective debt securities could adversely affect the availability of funding for NatWest Group, reduce NatWest Group's liquidity position and increase the cost of funding.

## NatWest Group plc Summary Risk Factors

### Financial resilience risk continued

- NatWest Group may be adversely affected if it fails to meet the requirements of regulatory stress tests.
- NatWest Group could incur losses or be required to maintain higher levels of capital as a result of limitations or failure of various models.
- NatWest Group's financial statements are sensitive to the underlying accounting policies, judgments, estimates and assumptions.
- Changes in accounting standards may materially impact NatWest Group's financial results.
- The value or effectiveness of any credit protection that NatWest Group has purchased depends on the value of the underlying assets and the financial condition of the insurers and counterparties.
- NatWest Group may become subject to the application of UK statutory stabilisation or resolution powers which may result in, among other actions, the cancellation, transfer or dilution of ordinary shares, or the write-down or conversion of certain other of NatWest Group's securities.

### Strategic risk

- NatWest Group has announced a new Purpose-led Strategy which will entail a period of transformation and require an internal cultural shift across NatWest Group. It carries significant execution and operational risks (which have been heightened due to the Covid-19 pandemic) and NatWest Group may not achieve its stated aims and targeted outcomes.
- Over the next three years, NatWest Group intends to re-focus its NatWest Markets franchise to NatWest Group's corporate and institutional customer offering and realise significant reductions in risk weighted assets, cost base and complexity. As a result of the direct and indirect effects of the Covid-19 pandemic, achieving these reductions in the current environment may be more challenging and such reductions may not be achieved in a timely manner or at all, which may require management actions by NatWest Group. This entails significant commercial, operational and execution risks and the intended benefits for NatWest Group may not be realised within the timeline and in the manner currently contemplated.
- NatWest Group's new Purpose-led Strategy includes one area of focus on climate change which entails significant execution risk and is likely to require material changes to the business model of NatWest Group over the next ten years.

### Operational and IT resilience risk

- NatWest Group is subject to increasingly sophisticated and frequent cyberattacks, which could adversely affect NatWest Group.
- NatWest Group's operations and strategy are highly dependent on the effective use and accuracy of data to support and improve its operations and deliver its strategy.
- Operational risks (including reliance on third party suppliers and outsourcing of certain activities) are inherent in NatWest Group's businesses and have been heightened as a result of the Covid-19 pandemic.
- NatWest Group's operations are highly dependent on its complex IT systems (including those that enable remote working), and any IT failure could adversely affect NatWest Group.
- NatWest Group relies on attracting, retaining and developing senior management and skilled personnel, and is required to maintain good employee relations.
- Due to the fact that most of NatWest Group employees are currently working remotely as a result of the Covid-19 pandemic, there is increased exposure to conduct, operational and other risks which may place additional pressure on NatWest Group's ability to maintain effective internal controls and governance frameworks. A failure in NatWest Group's risk management framework could adversely affect NatWest Group, including its ability to achieve its strategic objectives.
- NatWest Group's operations are subject to inherent reputational risk.

### Legal, regulatory and conduct risk

- NatWest Group's businesses are subject to substantial regulation and oversight, which are constantly evolving and may adversely affect NatWest Group.
- NatWest Group is subject to a number of litigation matters, regulatory and governmental actions and investigations as well as associated 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 NatWest Group.
- NatWest Group may not effectively manage the transition of LIBOR and other IBOR rates to alternative risk free rates.
- NatWest Group operates in markets that are subject to intense scrutiny by the competition authorities.
- The cost of implementing the alternative remedies package (regarding the business previously described as Williams & Glyn) 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 NatWest 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 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  
Group Chief Executive Officer

Katie Murray  
Group Chief Financial Officer

30 July 2020

## Board of directors

### Chairman

Howard Davies

### Executive directors

Alison Rose-Slade  
Katie Murray

### Non-executive directors

Frank Dangeard  
Patrick Flynn  
Morten Friis  
Robert Gillespie  
Yasmin Jetha  
Baroness Noakes  
Mike Rogers  
Mark Seligman  
Lena Wilson

## Presentation of information

The Royal Bank of Scotland Group plc or the 'parent company' was renamed NatWest Group plc on 22 July 2020.

In this document, 'parent company' refers to the NatWest Group plc, and 'NatWest Group' or the 'Group' refers to NatWest Group plc and its subsidiaries. The term 'NWH Group' refers to NatWest Holdings Limited ('NWH') and its subsidiary and associated undertakings. The term 'NWM Group' refers to NatWest Markets Plc ('NWM Plc') and its subsidiary and associated undertakings. The term 'NWM N.V.' refers to NatWest Markets N.V. The term 'NWMSI' refers to NatWest Markets Securities, Inc. The term 'RBS plc' refers to The Royal Bank of Scotland plc. The term 'NWB Plc' refers to National Westminster Bank Plc. The term 'UBI DAC' refers to Ulster Bank Ireland DAC. The term 'RBSI Limited' refers to The Royal Bank of Scotland International Limited.

NatWest Group 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.

## Western European corporate portfolio

In order to best serve its customers in an efficient manner and in light of Brexit planning, NatWest Group expects that its Western European corporate portfolio, principally including term funding and revolving credit facilities, may remain in NWB Plc and not be transferred to NatWest Markets Plc or its subsidiaries. Some or all of the portfolio already held in NatWest Markets Plc or its subsidiaries may be transferred to NWB Plc. The timing and quantum of such transfers is uncertain.

## 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 2019 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.

## Condensed consolidated financial statements

The unaudited condensed consolidated financial statements for the half year ended 30 June 2020 comprise the following sections of this document:

- Statutory results on pages 78 to 106 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 18.
- The Capital and risk management section on pages 19 to 77 as indicated within the scope of the independent review.

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 Group plc on page 107 for further information.

## 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', 'plan', 'could', 'probability', 'risk', 'Value-at-Risk (VaR)', 'target', 'goal', 'objective', 'may', 'endeavour', 'outlook', 'optimistic', 'prospects' and similar expressions or variations on these expressions. These statements concern or may affect future matters, such as NatWest Group's future economic results, business plans and strategies. In particular, this document may include forward-looking statements relating to NatWest Group in respect of, but not limited to: its regulatory capital position and related requirements, its financial position, profitability and financial performance (including financial, capital and operational 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 NatWest 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 final number of PPI claims and their amounts, the level and extent of future impairments and write-downs, including with respect to goodwill, legislative, political, fiscal and regulatory developments, accounting standards, competitive conditions, technological developments, interest and exchange rate fluctuations, general economic and political conditions and the uncertainty surrounding the Covid-19 pandemic and its impact on NatWest Group. These and other factors, risks and uncertainties that may impact any forward-looking statement or NatWest Group plc's actual results are discussed in NatWest Group plc's (previously The Royal Bank of Scotland Group plc) UK 2019 Annual Report and Accounts (ARA), NatWest Group plc's Interim Results for Q1 2020 and NatWest Group plc's Interim Results for H1 2020 and materials filed with, or furnished to, the US Securities and Exchange Commission, including, but not limited to, NatWest Group plc's most recent Annual Report on Form 20-F and Reports on Form 6-K. The forward-looking statements contained in this document speak only as of the date of this document and NatWest Group plc does not assume or undertake any obligation or responsibility to update any of the forward-looking statements contained in this document, whether as a result of new information, future events or otherwise, except to the extent legally required.

## Additional information

### Share information

|   | 30 June<br>2020 | 31 March<br>2020 | 31 December<br>2019 |
|---|-----------------|------------------|---------------------|
| Ordinary share price (pence)                  | 121.6           | 112.9            | 240.3               |
| Number of ordinary shares in issue (millions) | 12,125          | 12,094           | 12,094              |

### Financial calendar

|   |                 |
|---|-----------------|
| 2020 third quarter interim management statement | 30 October 2020 |
|---|-----------------|

### Contacts

|                    |  |                      |
|--------------------|--|----------------------|
| Analyst enquiries: | Alexander Holcroft, Investor Relations | +44 (0) 20 7672 1758 |
| Media enquiries:   | NatWest Group Press Office             | +44 (0) 131 523 4205 |

|                       | Management presentation | Fixed income call   | Web cast and dial in details  |
|-----------------------|-------------------------|---------------------|---|
| <b>Date:</b>          | Friday 31 July 2020     | Friday 31 July 2020 | <a href="https://investors.natwestgroup.com/results-centre">https://investors.natwestgroup.com/results-centre</a> |
| <b>Time:</b>          | 9:00 am UK time         | 1:30 pm UK time     | International – +44 (0) 20 3057 6566  |
| <b>Conference ID:</b> | 8081948                 | 7584097             | UK Free Call – 0800 279 6637<br>US Local Dial-In, New York - 1 646 517 5063                                       |

### Available on [www.natwestgroup.com/results](http://www.natwestgroup.com/results)

- Interim Results 2020 and background slides.
- A financial supplement containing income statement, balance sheet and segment performance information for the nine quarters ended 30 June 2020.
- NatWest Group and NWH Group Pillar 3 supplement at 30 June 2020.



# Appendix

## Non-IFRS financial measures

## Appendix Non-IFRS financial measures

As described in Note 1 on page 84, NatWest Group prepares its financial statements in accordance with IFRS as issued by the IASB which constitutes a body of generally accepted accounting principles (GAAP). The Interim Results contain a number of adjusted or alternative performance measures, also known as non-GAAP or non-IFRS performance 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 are not measures within the scope of IFRS and are not a substitute for IFRS measures. These measures include:

### Non-IFRS financial measures

| Measure   | Basis of preparation   | Additional analysis or reconciliation   |
|---|--|---|
| NatWest Group return on tangible equity               | Annualised profit for the period attributable to ordinary shareholders divided by average tangible equity. Average tangible equity is average total equity less average intangible assets and average other owners' equity.  | Table 1   |
| Segmental return on tangible equity                   | Annualised segmental operating profit adjusted for tax and for preference share dividends divided by average notional equity, allocated at an operating segment specific rate, of the period average segmental risk-weighted assets incorporating the effect of capital deductions (RWAe).   | Table 1   |
| Operating expenses analysis – management view         | The management analysis of operating expenses shows strategic costs and litigation and conduct costs in separate lines. Depreciation and amortisation, impairment of other intangibles and other administrative expenses attributable to these costs are included in strategic costs and litigation and conduct costs lines for management analysis.<br>These amounts are included in staff, premises and equipment and other administrative expenses in the statutory analysis. | Table 2   |
| Cost:income ratio                                     | Total operating expenses less operating lease depreciation divided by total income less operating lease depreciation.  | Table 3   |
| Commentary – adjusted periodically for specific items | NatWest Group and segmental business performance commentary have been adjusted for the impact of specific items such as transfers, strategic, litigation and conduct costs (detailed on pages 14 to 18).   | Notable items - page 5<br>Transfers – page 10<br>Strategic, litigation and conduct costs - pages 14 to 18 |
| Bank net interest margin (NIM)                        | Net interest income of the banking business less NatWest Markets (NWM) element as a percentage of interest-earning assets of the banking business less NWM element.  | Table 4   |

### Performance metrics not defined under IFRS<sup>(1)</sup>

| Measure                         | Basis of preparation  | Additional analysis or reconciliation |
|---------------------------------|---|---------------------------------------|
| Loan:deposit ratio              | Net customer loans held at amortised cost divided by total customer deposits.   | Table 5                               |
| Tangible net asset value (TNAV) | Tangible equity divided by the number of ordinary shares in issue. Tangible equity is ordinary shareholders' interest less intangible assets. | Page 4                                |
| NIM                             | Net interest income of the banking business as a percentage of interest-earning assets of the banking business.                               | Pages 14 to 18                        |
| Funded assets                   | Total assets less derivatives.  | Pages 14 to 18                        |
| ECL loss rate                   | The annualised loan impairment charge divided by gross customer loans.  | Pages 14 to 18                        |

Note:

(1) Metric based on GAAP measures, included as not defined under IFRS and reported for compliance with ESMA adjusted performance measure rules.

## Appendix Non-IFRS financial measures

### 1. Return on tangible equity

|  | Half year ended and<br>as at |                 | Quarter ended and as at |                  |                 |
|--|------------------------------|-----------------|-------------------------|------------------|-----------------|
|  | 30 June<br>2020              | 30 June<br>2019 | 30 June<br>2020         | 31 March<br>2020 | 30 June<br>2019 |
| (Loss)/profit attributable to ordinary shareholders (£m)                   | (705)                        | 2,038           | (993)                   | 288              | 1,331           |
| Adjustment for Alawwal bank merger gain (£m)                               |                              | (764)           |                         |                  |                 |
| Adjusted profit attributable to ordinary shareholders (£m)                 |                              | 1,274           |                         |                  |                 |
| Annualised (loss)/profit attributable to ordinary shareholders (£m)        | (1,410)                      | 4,076           | (3,972)                 | 1,152            | 5,324           |
| Annualised adjusted profit attributable to ordinary shareholders (£m)      |                              | 2,548           |                         |                  |                 |
| Average total equity (£m)  | 44,026                       | 46,310          | 44,068                  | 44,018           | 46,179          |
| Adjustment for other owners equity and intangibles (£m)                    | (11,911)                     | (12,528)        | (11,987)                | (11,911)         | (12,410)        |
| Adjusted total tangible equity (£m)  | 32,115                       | 33,782          | 32,081                  | 32,107           | 33,769          |
| Return on tangible equity (%)  | (4.4%)                       | 12.1%           | (12.4%)                 | 3.6%             | 15.8%           |
| Return on tangible equity adjusting for impact for Alawwal bank merger (%) |                              | 7.5%            |                         |                  |                 |

| Half year ended 30 June 2020                        | UK Personal<br>Banking | Ulster<br>Bank Rol | Commercial<br>Banking | Private<br>Banking | RBS<br>International | NatWest<br>Markets |
|---|------------------------|--------------------|-----------------------|--------------------|----------------------|--------------------|
| Operating profit/(loss) (£m)                        | 453                    | (239)              | (1,008)               | 84                 | 87                   | 69                 |
| Preference share cost allocation (£m)               | (44)                   | -                  | (76)                  | (11)               | (10)                 | (34)               |
| Adjustment for tax (£m)                             | (115)                  | -                  | 304                   | (20)               | (11)                 | (10)               |
| Adjusted attributable profit/(loss) (£m)            | 294                    | (239)              | (780)                 | 53                 | 66                   | 25                 |
| Annualised adjusted attributable profit/(loss) (£m) | 588                    | (478)              | (1,560)               | 106                | 132                  | 50                 |
| Average RWAe (£bn)                                  | 38.0                   | 12.7               | 75.9                  | 10.2               | 7.0                  | 41.9               |
| Equity factor                                       | 14.5%                  | 15.5%              | 11.5%                 | 12.5%              | 16.0%                | 15.0%              |
| RWAe applying equity factor (£bn)                   | 5.5                    | 2.0                | 8.7                   | 1.3                | 1.1                  | 6.3                |
| Return on equity (%)                                | 10.7%                  | (24.2%)            | (17.9%)               | 8.2%               | 11.8%                | 0.8%               |

#### Half year ended 30 June 2019

|   |       |       |       |       |       |       |
|---|-------|-------|-------|-------|-------|-------|
| Operating profit (£m)   | 1,037 | 23    | 701   | 155   | 194   | 300   |
| Adjustment for tax (£m)   | (290) | -     | (196) | (43)  | (27)  | (84)  |
| Preference share cost allocation (£m)                                 | (36)  | -     | (82)  | (8)   | -     | (30)  |
| Adjusted attributable profit (£m)                                     | 711   | 23    | 423   | 104   | 167   | 186   |
| Annualised adjusted attributable profit (£m)                          | 1,422 | 46    | 846   | 207   | 334   | 372   |
| Adjustment for Alawwal bank merger gain (£m)                          | -     | -     | -     | -     | -     | (299) |
| Annualised adjusted profit attributable to ordinary shareholders (£m) | 1,422 | 46    | 846   | 207   | 334   | 73    |
| Average RWAe (£bn)  | 37.0  | 14.3  | 79.6  | 9.6   | 7.0   | 49.2  |
| Equity factor   | 15.0% | 15.0% | 12.0% | 13.0% | 16.0% | 15.0% |
| RWAe applying equity factor (£bn)                                     | 5.5   | 2.1   | 9.6   | 1.2   | 1.1   | 7.4   |
| Return on equity (%)  | 25.6% | 2.1%  | 8.8%  | 16.6% | 29.7% | 1.0%  |

## Appendix Non-IFRS financial measures

### 1. Return on tangible equity continued

|   | UK Personal<br>Banking | Ulster<br>Bank Rol | Commercial<br>Banking | Private<br>Banking | RBS<br>International | NatWest<br>Markets |
|---|------------------------|--------------------|-----------------------|--------------------|----------------------|--------------------|
| <b>Quarter ended 30 June 2020</b>                                     |                        |                    |                       |                    |                      |                    |
| Operating profit/(loss) (£m)  | 129                    | (218)              | (971)                 | 35                 | 19                   | (137)              |
| Preference share cost allocation (£m)                                 | (22)                   | -                  | (38)                  | (5)                | (5)                  | (17)               |
| Adjustment for tax (£m)   | (30)                   | -                  | 283                   | (8)                | (2)                  | 43                 |
| Adjustment attributable profit/(loss) (£m)                            | 77                     | (218)              | (726)                 | 22                 | 12                   | (111)              |
| Annualised adjusted attributable profit/(loss) (£m)                   | 308                    | (872)              | (2,904)               | 88                 | 48                   | (444)              |
| Monthly average RWAE (£bn)  | 37.4                   | 12.6               | 77.8                  | 10.3               | 7.1                  | 41.8               |
| Equity factor   | 14.5%                  | 15.5%              | 11.5%                 | 12.5%              | 16.0%                | 15.0%              |
| RWAE applying equity factor (£bn)                                     | 5.4                    | 2.0                | 8.9                   | 1.3                | 1.1                  | 6.3                |
| Return on equity (%)  | 5.7%                   | (44.5%)            | (32.5%)               | 6.6%               | 4.3%                 | (7.1%)             |
| <b>Quarter ended 31 March 2020</b>                                    |                        |                    |                       |                    |                      |                    |
| Operating profit/(loss)(£m)   | 324                    | (21)               | (37)                  | 49                 | 68                   | 206                |
| Preference share cost allocation (£m)                                 | (22)                   | -                  | (38)                  | (6)                | (5)                  | (17)               |
| Adjustment for tax (£m)   | (85)                   | -                  | 21                    | (12)               | (9)                  | (53)               |
| Adjustment attributable profit/(loss) (£m)                            | 217                    | (21)               | (54)                  | 31                 | 54                   | 136                |
| Annualised adjusted attributable profit/(loss) (£m)                   | 868                    | (84)               | (216)                 | 124                | 217                  | 544                |
| Monthly average RWAE (£bn)  | 38.7                   | 12.8               | 74.1                  | 10.2               | 7.0                  | 41.9               |
| Equity factor   | 14.5%                  | 15.5%              | 11.5%                 | 12.5%              | 16.0%                | 15.0%              |
| RWAE applying equity factor (£bn)                                     | 5.6                    | 2.0                | 8.5                   | 1.3                | 1.1                  | 6.3                |
| Return on equity (%)  | 15.5%                  | (4.2%)             | (2.5%)                | 9.8%               | 19.4%                | 8.7%               |
| <b>Quarter ended 30 June 2019</b>                                     |                        |                    |                       |                    |                      |                    |
| Operating profit (£m)   | 539                    | 3                  | 264                   | 75                 | 101                  | 362                |
| Adjustment for tax (£m)   | (151)                  | -                  | (74)                  | (21)               | (14)                 | (101)              |
| Preference share cost allocation (£m)                                 | (18)                   | -                  | (41)                  | (4)                | -                    | (30)               |
| Adjustment attributable profit (£m)                                   | 370                    | 3                  | 149                   | 50                 | 87                   | 231                |
| Annualised adjusted attributable profit (£m)                          | 1,480                  | 12                 | 596                   | 199                | 345                  | 924                |
| Adjustment for Alawwal merger gain (£m)                               | -                      | -                  | -                     | -                  | -                    | (598)              |
| Annualised adjusted profit attributable to ordinary shareholders (£m) | 1,480                  | 12                 | 596                   | 199                | 345                  | 326                |
| Monthly average RWAE (£bn)  | 37.2                   | 14.3               | 80.1                  | 9.6                | 7.0                  | 49.1               |
| Equity factor   | 15.0%                  | 15.0%              | 12.0%                 | 13.0%              | 16.0%                | 15.0%              |
| RWAE applying equity factor (£bn)                                     | 5.6                    | 2.1                | 9.6                   | 1.2                | 1.1                  | 7.4                |
| Return on equity (%)  | 26.5%                  | 0.6%               | 6.2%                  | 15.9%              | 30.8%                | 4.4%               |

## Appendix Non-IFRS performance measures

### 2. Operating expenses analysis

#### Statutory analysis <sup>(1,2)</sup>

|                                       | Half year ended |                 | Quarter ended   |                  |                 |
|---------------------------------------|-----------------|-----------------|-----------------|------------------|-----------------|
|                                       | 30 June<br>2020 | 30 June<br>2019 | 30 June<br>2020 | 31 March<br>2020 | 30 June<br>2019 |
| <b>Operating expenses</b>             |                 |                 |                 |                  |                 |
| Staff costs                           | (1,955)         | (2,028)         | (963)           | (992)            | (1,017)         |
| Premises and equipment                | (651)           | (558)           | (393)           | (258)            | (293)           |
| Other administrative expenses         | (696)           | (863)           | (298)           | (398)            | (445)           |
| Depreciation and amortisation         | (441)           | (621)           | (248)           | (193)            | (377)           |
| Impairment of other intangible assets | (7)             | (30)            | (7)             | -                | (30)            |
| <b>Total operating expenses</b>       | <b>(3,750)</b>  | <b>(4,100)</b>  | <b>(1,909)</b>  | <b>(1,841)</b>   | <b>(2,162)</b>  |

#### Non-statutory analysis

|                                       | Half year ended |                              |                |                              | Quarter ended   |                              |                |                              |
|---------------------------------------|-----------------|------------------------------|----------------|------------------------------|-----------------|------------------------------|----------------|------------------------------|
|                                       | 30 June 2020    |                              |                |                              | 30 June 2019    |                              |                |                              |
|                                       | Strategic costs | Litigation and conduct costs | Other expenses | Statutory operating expenses | Strategic costs | Litigation and conduct costs | Other expenses | Statutory operating expenses |
| <b>Operating expenses</b>             |                 |                              |                |                              |                 |                              |                |                              |
| Staff costs                           | (160)           | -                            | (1,795)        | (1,955)                      | (187)           | -                            | (1,841)        | (2,028)                      |
| Premises and equipment                | (148)           | -                            | (503)          | (651)                        | (65)            | -                            | (493)          | (558)                        |
| Other administrative expenses         | (100)           | 89                           | (685)          | (696)                        | (130)           | (60)                         | (673)          | (863)                        |
| Depreciation and amortisation         | (49)            | -                            | (392)          | (441)                        | (222)           | -                            | (399)          | (621)                        |
| Impairment of other intangible assets | (7)             | -                            | -              | (7)                          | (25)            | -                            | (5)            | (30)                         |
| <b>Total</b>                          | <b>(464)</b>    | <b>89</b>                    | <b>(3,375)</b> | <b>(3,750)</b>               | <b>(629)</b>    | <b>(60)</b>                  | <b>(3,411)</b> | <b>(4,100)</b>               |

|                                       | Quarter ended   |                              |                |                              | Quarter ended   |                              |                |                              |
|---------------------------------------|-----------------|------------------------------|----------------|------------------------------|-----------------|------------------------------|----------------|------------------------------|
|                                       | 30 June 2020    |                              |                |                              | 31 March 2020   |                              |                |                              |
|                                       | Strategic costs | Litigation and conduct costs | Other expenses | Statutory operating expenses | Strategic costs | Litigation and conduct costs | Other expenses | Statutory operating expenses |
| <b>Operating expenses</b>             |                 |                              |                |                              |                 |                              |                |                              |
| Staff costs                           | (87)            | -                            | (876)          | (963)                        | (73)            | -                            | (919)          | (992)                        |
| Premises and equipment                | (135)           | -                            | (258)          | (393)                        | (13)            | -                            | (245)          | (258)                        |
| Other administrative expenses         | (57)            | 85                           | (326)          | (298)                        | (43)            | 4                            | (359)          | (398)                        |
| Depreciation and amortisation         | (47)            | -                            | (201)          | (248)                        | (2)             | -                            | (191)          | (193)                        |
| Impairment of other intangible assets | (7)             | -                            | -              | (7)                          | -               | -                            | -              | -                            |
| <b>Total</b>                          | <b>(333)</b>    | <b>85</b>                    | <b>(1,661)</b> | <b>(1,909)</b>               | <b>(131)</b>    | <b>4</b>                     | <b>(1,714)</b> | <b>(1,841)</b>               |

|                                       | Quarter ended   |                              |                |                              |
|---------------------------------------|-----------------|------------------------------|----------------|------------------------------|
|                                       | 30 June 2019    |                              |                |                              |
|                                       | Strategic costs | Litigation and conduct costs | Other expenses | Statutory operating expenses |
| <b>Operating expenses</b>             |                 |                              |                |                              |
| Staff costs                           | (112)           | -                            | (905)          | (1,017)                      |
| Premises and equipment                | (48)            | -                            | (245)          | (293)                        |
| Other administrative expenses         | (72)            | (55)                         | (318)          | (445)                        |
| Depreciation and amortisation         | (177)           | -                            | (200)          | (377)                        |
| Impairment of other intangible assets | (25)            | -                            | (5)            | (30)                         |
| <b>Total</b>                          | <b>(434)</b>    | <b>(55)</b>                  | <b>(1,673)</b> | <b>(2,162)</b>               |

#### Notes:

- (1) On a statutory, or GAAP basis, strategic costs are included within staff costs, premises and equipment, depreciation and amortisation, impairment of other intangible assets and other administrative expenses. Strategic costs relate to restructuring provisions, related costs and projects that are transformational in nature.
- (2) On a statutory, or GAAP basis, litigation and conduct costs are included within other administrative expenses.

## Appendix Non-IFRS performance measures

### 3. Cost:income ratio

|                                     | UK Personal<br>Banking<br>£m | Ulster<br>Bank Rol<br>£m | Commercial<br>Banking<br>£m | Private<br>Banking<br>£m | RBS<br>International<br>£m | NatWest<br>Markets<br>£m | Central items<br>& other<br>£m | NatWest<br>Group<br>£m |
|-------------------------------------|------------------------------|--------------------------|-----------------------------|--------------------------|----------------------------|--------------------------|--------------------------------|------------------------|
| <b>Half year ended 30 June 2020</b> |                              |                          |                             |                          |                            |                          |                                |                        |
| Operating expenses                  | (1,075)                      | (245)                    | (1,221)                     | (252)                    | (126)                      | (707)                    | (124)                          | (3,750)                |
| Operating lease depreciation        | -                            | -                        | 73                          | -                        | -                          | -                        | -                              | 73                     |
| Adjusted operating expenses         | (1,075)                      | (245)                    | (1,148)                     | (252)                    | (126)                      | (707)                    | (124)                          | (3,677)                |
| Total income                        | 2,185                        | 249                      | 2,003                       | 392                      | 259                        | 816                      | (66)                           | 5,838                  |
| Operating lease depreciation        | -                            | -                        | (73)                        | -                        | -                          | -                        | -                              | (73)                   |
| Adjustment total income             | 2,185                        | 249                      | 1,930                       | 392                      | 259                        | 816                      | (66)                           | 5,765                  |
| Cost:income ratio (%)               | 49.2%                        | 98.4%                    | 59.5%                       | 64.3%                    | 48.6%                      | 86.6%                    | nm                             | 63.8%                  |
| <b>Half year ended 30 June 2019</b> |                              |                          |                             |                          |                            |                          |                                |                        |
| Operating expenses                  | (1,229)                      | (281)                    | (1,262)                     | (232)                    | (119)                      | (678)                    | (299)                          | (4,100)                |
| Operating lease depreciation        | -                            | -                        | 68                          | -                        | -                          | -                        | -                              | 68                     |
| Adjusted operating expenses         | (1,229)                      | (281)                    | (1,194)                     | (232)                    | (119)                      | (678)                    | (299)                          | (4,032)                |
| Total income                        | 2,447                        | 283                      | 2,165                       | 384                      | 310                        | 942                      | 586                            | 7,117                  |
| Operating lease depreciation        | -                            | -                        | (68)                        | -                        | -                          | -                        | -                              | (68)                   |
| Adjustment total income             | 2,447                        | 283                      | 2,097                       | 384                      | 310                        | 942                      | 586                            | 7,049                  |
| Cost:income ratio (%)               | 50.2%                        | 99.3%                    | 56.9%                       | 60.4%                    | 38.4%                      | 72.0%                    | nm                             | 57.2%                  |
| <b>Quarter ended 30 June 2020</b>   |                              |                          |                             |                          |                            |                          |                                |                        |
| Operating expenses                  | (546)                        | (122)                    | (611)                       | (129)                    | (65)                       | (365)                    | (71)                           | (1,909)                |
| Operating lease depreciation        | -                            | -                        | 37                          | -                        | -                          | -                        | -                              | 37                     |
| Adjusted operating expenses         | (546)                        | (122)                    | (574)                       | (129)                    | (65)                       | (365)                    | (71)                           | (1,872)                |
| Total income                        | 1,035                        | 120                      | 995                         | 191                      | 115                        | 273                      | (53)                           | 2,676                  |
| Operating lease depreciation        | -                            | -                        | (37)                        | -                        | -                          | -                        | -                              | (37)                   |
| Adjustment total income             | 1,035                        | 120                      | 958                         | 191                      | 115                        | 273                      | (53)                           | 2,639                  |
| Cost:income ratio (%)               | 52.8%                        | 101.7%                   | 59.9%                       | 67.5%                    | 56.5%                      | 133.7%                   | nm                             | 70.9%                  |
| <b>Quarter ended 31 March 2020</b>  |                              |                          |                             |                          |                            |                          |                                |                        |
| Operating expenses                  | (529)                        | (123)                    | (610)                       | (123)                    | (61)                       | (342)                    | (53)                           | (1,841)                |
| Operating lease depreciation        | -                            | -                        | 36                          | -                        | -                          | -                        | -                              | 36                     |
| Adjusted operating expenses         | (529)                        | (123)                    | (574)                       | (123)                    | (61)                       | (342)                    | (53)                           | (1,805)                |
| Total income                        | 1,150                        | 129                      | 1,008                       | 201                      | 144                        | 543                      | (13)                           | 3,162                  |
| Operating lease depreciation        | -                            | -                        | (36)                        | -                        | -                          | -                        | -                              | (36)                   |
| Adjustment total income             | 1,150                        | 129                      | 972                         | 201                      | 144                        | 543                      | (13)                           | 3,126                  |
| Cost:income ratio (%)               | 46.0%                        | 95.3%                    | 59.1%                       | 61.2%                    | 42.4%                      | 63.0%                    | nm                             | 57.7%                  |
| <b>Quarter ended 30 June 2019</b>   |                              |                          |                             |                          |                            |                          |                                |                        |
| Operating expenses                  | (594)                        | (145)                    | (622)                       | (115)                    | (60)                       | (344)                    | (282)                          | (2,162)                |
| Operating lease depreciation        | -                            | -                        | 34                          | -                        | -                          | -                        | -                              | 34                     |
| Adjusted operating expenses         | (594)                        | (145)                    | (588)                       | (115)                    | (60)                       | (344)                    | (282)                          | (2,128)                |
| Total income                        | 1,202                        | 138                      | 1,083                       | 191                      | 159                        | 686                      | 621                            | 4,080                  |
| Operating lease depreciation        | -                            | -                        | (34)                        | -                        | -                          | -                        | -                              | (34)                   |
| Adjustment total income             | 1,202                        | 138                      | 1,049                       | 191                      | 159                        | 686                      | 621                            | 4,046                  |
| Cost:income ratio (%)               | 49.4%                        | 105.1%                   | 56.1%                       | 60.2%                    | 37.7%                      | 50.1%                    | nm                             | 52.6%                  |

## Appendix Non-IFRS performance measures

### 4. Net interest margin

|  | Half year ended |         | Quarter ended |          |         |
|--|-----------------|---------|---------------|----------|---------|
|  | 30 June         | 30 June | 30 June       | 31 March | 30 June |
|  | 2020            | 2019    | 2020          | 2020     | 2019    |
|  | £m              | £m      | £m            | £m       | £m      |
| NatWest Group net interest income            | 3,852           | 4,004   | 1,910         | 1,942    | 1,971   |
| NWM net interest income                      | 34              | 122     | (6)           | 40       | 91      |
| Net interest income excluding NWM            | 3,886           | 4,126   | 1,904         | 1,982    | 2,062   |
| Annualised net interest income               | 7,746           | 8,074   | 7,682         | 7,811    | 7,906   |
| Annualised net interest income excluding NWM | 7,815           | 8,320   | 7,658         | 7,972    | 8,271   |
| Average interest earning assets (IEA)        | 477,898         | 440,309 | 497,440       | 458,514  | 444,800 |
| NWM average IEA                              | 37,994          | 33,261  | 39,874        | 36,113   | 34,436  |
| Average IEA excluding NWM                    | 439,904         | 407,048 | 457,566       | 422,401  | 410,364 |
| Net interest margin                          | 1.62%           | 1.83%   | 1.54%         | 1.70%    | 1.78%   |
| Bank net interest margin (excluding NWM)     | 1.78%           | 2.04%   | 1.67%         | 1.89%    | 2.02%   |

### 5. Loan:deposit ratio

|                                     | As at   |          |         |
|-------------------------------------|---------|----------|---------|
|                                     | 30 June | 31 March | 30 June |
|                                     | 2020    | 2020     | 2019    |
|                                     | £bn     | £bn      | £bn     |
| Loans to customers - amortised cost | 352,341 | 351,328  | 310,631 |
| Customer deposits                   | 408,268 | 384,800  | 361,626 |
| Loan:deposit ratio (%)              | 86%     | 91%      | 86%     |

Legal Entity Identifier: 2138005O9XJ1JN4JPN90