# Interim Results 2020

**National Westminster Bank Plc**
**Interim results for the period ending 30 June 2020**

**NatWest Bank Group (NWB Group) reported an attributable loss for the period of £121 million, compared to an attributable profit of £689 million in H1 2019.**

The business performance of NWB Group in the first half of the year has been significantly impacted by the challenges and uncertainty the economy continues to face as a result of Covid-19, resulting in a loss for the period. However, NWB Group has a robust capital position, underpinned by a resilient, capital generative and well diversified business.

A strong balance sheet and prudent approach to risk means NWB Group is well placed not only to withstand Covid-19 related impacts but to provide the right support to customers in the tough times to come.

**Financial performance in a challenging environment**

- Attributable loss for the period was £121 million compared with an attributable profit of £689 million in H1 2019, reflecting lower income and significantly higher impairment charges primarily due to the current Covid-19 crisis and resulting uncertain economic conditions, partly offset by a reduction in costs.
- NatWest Bank Group total income decreased by £28 million compared with H1 2019 with lower income in UK Personal Banking driven by mortgage margin contraction and reduced fee income, offset by higher gains from bond disposals.
- Operating expenses decreased by £396 million compared with H1 2019 principally due to lower strategic costs and litigation and conduct costs, reducing the cost:income ratio from 71% to 62%.
- Underlying costs excluding strategic costs and litigation and conduct charges continue to reduce to £2,628 million in H1 2020 compared with £2,800 million in H1 2019.
- Impairment losses increased by £1,627 million compared with H1 2019, reflecting deterioration of the economic outlook.

**Robust balance sheet with strong capital levels**

- Total assets increased by £43.8 billion to £362.3 billion compared with £318.5 billion at 31 December 2019. This included net increases in loans to customers – amortised cost of £24.2 billion primarily driven by growth in retail mortgages and an increase in corporate lending due to drawdowns against UK Government lending initiatives and increased utilisation of revolving credit facilities (RCFs) in response to Covid-19 uncertainty.
- Customer deposits increased by £29.1 billion as customers seek to retain liquidity in response to the uncertain economic environment together with increases of £17.4 billion in cash and balances at central banks and £6.3 billion in reverse repos as a result.
- Common Equity Tier 1 (CET1) ratio increased to 16.3% from 15.9% due to a £1.4 billion increase in CET1 capital reflecting the cancellation of the December 2019 foreseeable charge of £0.4 billion in line with announcements made as a result of the impact of Covid-19, other reserve movements and an increase of £0.9 billion due to transitional arrangements on expected credit losses, which offset the impact of the increased impairment losses. The capital increase was offset by a £6.5 billion increase in RWAs.
- RWAs increased by £6.5 billion to £87.5 billion primarily due to an increase in credit risk RWAs of £6.0 billion during H1 2020.

## Financial review

### Income statement

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

| | UK Personal Banking £m | Commercial Banking £m | Private Banking £m | Central items & other £m | Half year ended 30 June 2020 £m | Half year ended 30 June 2019 £m |
|---|---|---|---|---|---|---|
| Net interest income | **1,585** | **1,136** | **238** | **(80)** | **2,879** | 2,894 |
| Non-interest income | **204** | **523** | **129** | **784** | **1,640** | 1,653 |
| **Total income** | **1,789** | **1,659** | **367** | **704** | **4,519** | 4,547 |
| Operating expenses | **(877)** | **(1,005)** | **(240)** | **(688)** | **(2,810)** | (3,206) |
| **Profit before impairment losses** | **912** | **654** | **127** | **16** | **1,709** | 1,341 |
| Impairment losses | **(547)** | **(1,290)** | **(56)** | **(20)** | **(1,913)** | (286) |
| **Operating (loss)/profit** | **365** | **(636)** | **71** | **(4)** | **(204)** | 1,055 |
| Tax credit/(charge) | | | | | **171** | (282) |
| **(Loss)/profit for period** | | | | | **(33)** | 773 |
| Attributable to: | | | | | | |
| Ordinary shareholders | | | | | **(121)** | 689 |
| Paid-in equity holders | | | | | **86** | 82 |
| Non-controlling interests | | | | | **2** | 2 |
| Notable items within operating expenses | | | | | | |
| Strategic costs | | | | | **325** | 346 |
| Litigation and conduct costs | | | | | **(143)** | 60 |

| | Half year ended 30 June 2020 | Half year ended 30 June 2019 |
|---|---|---|
| **Key metrics and ratios** | | |
| Cost:income ratio (2) | **62%** | 71% |

| | As at 30 June 2020 | As at 31 December 2019 |
|---|---|---|
| Loan impairment expected credit loss rate (3) | **145.2bps** | 24.1bps |
| CET1 ratio | **16.3%** | 15.9% |
| Leverage ratio (4) | **4.7%** | 5.0% |
| Risk weighted assets (RWAs) (£bn) | **87.5** | 81.1 |

Notes:
(1) The segments presented are those which relate to NatWest Bank Group not NatWest Group.
(2) Operating expenses divided by total income.
(3) Refer to Note 9 for further details.
(4) Leverage exposure is broadly aligned to the accounting value of on and off-balance sheet exposures albeit subject to specific adjustments for derivatives, securities financing positions and off-balance sheet exposures.

Total income decreased by £28 million, or 1%, to £4,519 million compared with £4,547 million in H1 2019.

Net interest income decreased by £15 million to £2,879 million, compared with £2,894 million in H1 2019, reflecting decreases in the Bank of England base rate, the contraction of the yield curve and mortgage margin dilution, partly offset by mortgage and corporate lending volume growth.

Non-interest income decreased by £13 million to £1,640 million, compared with £1,653 million in H1 2019.

- Net fees and commissions decreased by £166 million reflecting lower fees on current accounts and mortgages, and lower income from credit cards and FX transactions due to reduced transaction levels following government measures taken in response to Covid-19.
- Other operating income increased by £153 million to £943 million, compared with £790 million in H1 2019, due to £99 million higher gains on bond disposals, a £36 million increase in income from costs recharged to other entities in NatWest Group and £27 million higher income from hedging activities, reflecting IFRS and market volatility.

**Financial review** continued

Operating expenses decreased by £396 million, or 12%, to £2,810 million, compared with £3,206 million in H1 2019, driven by lower litigation and conduct costs primarily as a result of a PPI provision release and lower other administrative costs as a result of savings initiatives. Strategic costs of £325 million in H1 2020 included a £152 million charge, primarily related to property exits.

Staff costs decreased by £59 million to £1,367 million, compared with £1,426 million in H1 2019, in relation to headcount reduction and strategic provision releases. Premises and equipment costs increased by £58 million to £544 million, compared with £486 million in H1 2019, of which £48 million related to higher charges for strategic property provisions. Depreciation and amortisation costs increased by £16 million to £407 million. Impairment of intangible assets decreased by £23 million to £7 million.

Other administrative expenses decreased by £388 million to £485 million, compared with £873 million in H1 2019, reflecting:
- £202 million decrease in conduct and litigation charges, due to a PPI provision release of £160 million in H1 2020; compared to a charge of £26 million in H1 2019, and legacy litigation provision release of £22 million;
- £37 million decrease in strategic costs, due to lower technology transformation costs;
- non repeat of a small number of one off costs in H1 2019; and
- a reduction in other administrative costs resulting from savings initiatives.

Impairment losses increased by £1,627 million to £1,913 million, compared with £286 million in H1 2019, reflecting deterioration of the economic outlook.

## Business performance summary

### UK Personal Banking

Operating profit was £365 million, compared with £816 million in H1 2019.
- Net interest income decreased by £93 million to £1,585 million compared with £1,678 million in H1 2019, reflecting base interest rate cuts, a low yield curve environment and mortgage margin dilution offset by mortgage volume growth.
- Non-interest income decreased by £186 million to £204 million, compared with £390 million in H1 2019, reflecting a decrease of £125 million in net fees and commissions, due to regulatory changes, lower consumer spending and the transfer of the Private Client Advice business to Private Banking. Income from legal entity recharging of UK Personal Banking shared service costs decreased by £62 million.
- Operating expenses decreased by £228 million to £877 million compared with £1,105 million in H1 2019, reflecting a decrease in litigation and conduct costs due to a PPI provision release of £161 million in H1 2020 (£26 million charge in H1 2019), offset by a £34 million charge related primarily to fraud cases. Staff costs decreased by £14 million due to headcount reduction and indirect costs were £39 million lower.
- Impairment losses increased by £400 million to £547 million, compared with £147 million in H1 2019 reflecting deterioration of the economic outlook.
- Loans to customers - amortised cost increased by £7.3 billion to £143.6 billion, driven by strong new gross mortgage lending and lower redemptions.
- Customer deposits increased by £8.8 billion to £129.8 billion, due to growth in demand and savings deposits, as customers seek to retain liquidity in response to the uncertain economic environment.

### Commercial Banking

Operating loss was £636 million, compared with a profit of £402 million in H1 2019.

- Net interest income increased by £65 million to £1,136 million, compared with £1,071 million in H1 2019, primarily driven by balance sheet growth, partially offset by lower deposit funding benefits due to a contraction of the yield curve.
- Non-interest income decreased by £70 million to £523 million, reflecting £49 million lower income from legal entity recharging and £61 million decrease in net fees and commissions, due to lower transaction levels, offset by a £39 million increase in gains on asset sales.
- Operating expenses decreased by £116 million to £1,005 million, reflecting the non-repeat of £28 million of litigation and conduct costs and £26 million of strategic costs in H1 2019.
- Impairment losses increased by £1,149 million to £1,290 million, compared with £141 million in H1 2019, which reflects deterioration of the economic outlook.
- Loans to customers - amortised cost increased by £10.1 billion to £80.6 billion, due to increases in corporate lending due to drawdowns against UK Government lending initiatives and increased utilisation of RCFs, as a response to Covid-19 uncertainty.
- Customer deposits increased by £19.4 billion to £110.8 billion reflecting increase in demand and savings deposits, as customers seek to retain liquidity in response to the uncertain economic environment.

### Private Banking

Operating profit was £71 million compared with £111 million in H1 2019.

- Net interest income decreased by £18 million to £238 million, compared with £256 million in H1 2019, due to decreases in the Bank of England base rate.
- Non-interest income increased by £14 million to £129 million due to an increase in net fees and commissions following the transfer of the Private Client Advice business from UK Personal Banking.
- Operating expenses decreased by £25 million to £240 million in H1 2020, driven by £58 million lower indirect costs, as a result of a change to cost allocations, offset by investment spend and a number of one-off items.
- Impairment losses increased by £61 million to £56 million H1 2020 compared with £5 million release in H1 2019, driven by deterioration of the economic outlook.
- Loans to customers - amortised cost increased by £0.5 billion to £15.3 billion in relation to growth in mortgage and other lending.
- Deposits increased by £1.4 billion to £27.8 billion reflecting an increase in instant access savings and current accounts.

### Central items & other

Operating loss was £4 million in H1 2020 compared with an operating loss of £274 million in H1 2019.

- Net interest income increased by £31 million, due to £41 million lower Treasury related allocations to segments in H1 2020, offset by increased costs of carry on placements with the Bank of England.
- Non-interest income increased by £229 million reflecting an increase in income from legal entity cost recharging of central items of £147 million, a higher gain on bonds disposal of £99 million, offset by a £13 million decreases in property revenue and the fair value of investment.
- Operating expenses decreased by £27 million to £688 million reflecting lower transformation and technology costs and a one-off charge related to property costs in H1 2019. In H1 2020, £605 million of the total expenses were recovered through service charges in non-interest income.

## Business performance summary
### Balance sheet key metrics and commentary

| | 30 June 2020 £bn | 31 December 2019 £bn |
|---|---|---|
| Total assets | **362.3** | 318.5 |
| Third party assets (1) | **358.6** | 314.7 |
| Loans to customers - amortised cost | **256.5** | 232.3 |
| Customer deposits | **271.2** | 242.1 |
| Loan:deposit ratio (2) | **95%** | 96% |

Notes:
(1) Total assets less amounts due from holding company and fellow subsidiaries.
(2) Net customer loans held at amortised cost divided by total customer deposits.

### Customer lending and deposits
Customer lending increased by £24.2 billion to £256.5 billion, compared with £232.3 billion, driven by:
- £9.6 billion increase in corporate loans reflecting drawdowns against government lending schemes and increased utilisation of RCFs as customers respond to Covid-19 uncertainty;
- £8.9 billion mortgage growth as a result of strong gross new lending and reduced redemptions; and
- £6.3 billion higher volume of reverse repos.

Customer deposits increased by £29.1 billion to £271.2 billion primarily reflecting a £31.0 billion increase in demand and savings deposits, as customers sought to retain liquidity and reduced spending as a result of government measures in response to Covid-19.

### Other movements including lending and liquidity
- Cash and balances at central banks increased by £17.5 billion, reflecting a £10.0 billion liquidity switch from The Royal Bank of Scotland plc (RBS plc) to NWB Plc to maintain the operational buffer in the Bank of England account, increased net cash placements from NatWest Group entities of £17.2 billion and a net £2.2 billion increase due to the issuance of AT1, Tier 2 and MREL securities and maturity of covered bonds. This was offset by a decrease of £11.8 billion related to liquidity portfolio optimisation activity.
- Other financial assets increased by £1.9 billion to £42.9 billion, reflecting the net increase of debt securities which form part of the Treasury liquidity portfolio.
- Bank deposits decreased by £1.3 billion to £14.2 billion driven by a reduction in repos of £2.0 billion, offset by additional third party deposits of £0.7 billion.
- Amounts due to holding companies and fellow subsidiaries increased by £14.2 billion primarily as a result of increased placements with Treasury.
- Other financial liabilities increased by £0.7 billion to £9.0 billion reflecting commercial paper issuances of £1.8 billion offset by a £1.0 billion decrease due to maturities of covered bonds.
- Other liabilities decreased by £0.5 billion to £4.8 billion, primarily driven by a reduction of £0.4 billion in the PPI provision.
- Owners' equity decreased by £0.4 billion reflecting the attributable loss for the period combined with decreases in the cash flow hedging and FVOCI reserves.

## Business performance summary

### Capital and leverage ratios

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

| | **30 June 2020** | 31 December 2019 |
|---|---|---|
| **Capital adequacy ratios** | **%** | % |
| CET1 (1) | **16.3** | 15.9 |
| Tier 1 | **18.8** | 18.6 |
| Total | **22.5** | 22.0 |
| **Capital** | **£m** | £m |
| CET1 | **14,261** | 12,851 |
| Tier 1 | **16,427** | 15,047 |
| Total | **19,708** | 17,801 |
| **Risk-weighted assets** | | |
| Credit risk | **73,730** | 67,778 |
| Counterparty credit risk | **950** | 605 |
| Market risk | **13** | 17 |
| Operational risk | **12,843** | 12,669 |
| Total RWAs | **87,536** | 81,069 |
| **Leverage** | | |
| Leverage exposure (£m) (CRR basis) | **349,262** | 300,438 |
| Tier 1 capital (£m) | **16,427** | 15,047 |
| Leverage ratio (%) (1) | **4.7** | 5.0 |

Note:
(1) Includes the IFRS 9 transitional adjustment of £0.9 billion. Excluding this adjustment, the CET 1 ratio would be 15.1% and the leverage ratio would be 4.4%

### Key points

- The CET1 ratio increased to 16.3% from 15.9% due to a £1.4 billion increase in CET1 capital and offset by a £6.5 billion increase in RWAs. The CET1 increase reflects the cancellation of the December 2019 foreseeable charge of £0.4 billion in line with announcements following Covid-19, other reserve movements and an increase of £0.9 billion due to the IFRS 9 transitional arrangements on expected credit losses, which offset the impact of the increased impairment losses.
- NWB Plc issued £500 million internal subordinated Tier 2 Notes in May 2020.
- RWAs increased by £6.5 billion primarily due to an increase in credit risk RWAs of £6.0 billion during H1 2020. The increase in credit risk was largely attributed to increased utilisation of existing facilities and new lending under the government lending initiatives in Commercial Banking as well as increases due to foreign exchange and insurance-related asset transfers from NWM Plc. Counterparty credit risk RWAs increased by £0.3 billion during the period. The operational risk RWAs increased by £0.2 billion due to the annual recalculation.
- The leverage ratio has decreased to 4.7% as a result of the increase in the leverage exposure driven by balance sheet assets.

## Condensed consolidated income statement for the half year ended 30 June 2020 (unaudited)

| | Half year ended | |
|---|---|---|
| | **30 June 2020 £m** | 30 June 2019 £m |
| Interest receivable | **3,518** | 3,642 |
| Interest payable | **(639)** | (748) |
| **Net interest income** | **2,879** | 2,894 |
| Fees and commissions receivable | **845** | 1,169 |
| Fees and commissions payable | **(148)** | (306) |
| Other operating income | **943** | 790 |
| **Non-interest income** | **1,640** | 1,653 |
| **Total income** | **4,519** | 4,547 |
| Operating expenses | **(2,810)** | (3,206) |
| **Profit before impairment losses** | **1,709** | 1,341 |
| Impairment losses | **(1,913)** | (286) |
| **Operating (loss)/profit before tax** | **(204)** | 1,055 |
| Tax credit/(charge) | **171** | (282) |
| **(Loss)/profit for the period** | **(33)** | 773 |
| **Attributable to:** | | |
| Ordinary shareholders | **(121)** | 689 |
| Paid-in equity holders | **86** | 82 |
| Non-controlling interests | **2** | 2 |
| | **(33)** | 773 |

## Condensed consolidated statement of comprehensive income for the half year ended 30 June 2020 (unaudited)

| | | |
|---|---|---|
| **(Loss)/profit for the period** | **(33)** | 773 |
| **Items that do not qualify for reclassification** | | |
| Remeasurement of retirement benefit schemes | **(34)** | (68) |
| Tax | **25** | 18 |
| | **(9)** | (50) |
| **Items that do qualify for reclassification** | | |
| FVOCI financial assets | **(105)** | (28) |
| Cash flow hedges | **(247)** | - |
| Currency translation | **15** | (1) |
| Tax | **90** | 12 |
| | **(247)** | (17) |
| **Other comprehensive loss after tax** | **(256)** | (67) |
| **Total comprehensive (loss)/income for the period** | **(289)** | 706 |
| **Attributable to:** | | |
| Ordinary shareholders | **(377)** | 622 |
| Paid-in equity holders | **86** | 82 |
| Non-controlling interests | **2** | 2 |
| | **(289)** | 706 |

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

| | 30 June 2020 £m | 31 December 2019 £m |
|---|---|---|
| **Assets** | | |
| Cash and balances at central banks | **44,911** | 27,457 |
| Derivatives | **3,586** | 3,302 |
| Loans to banks - amortised cost | **3,332** | 3,325 |
| Loans to customers - amortised cost | **256,484** | 232,313 |
| Amounts due from holding companies and fellow subsidiaries | **3,714** | 3,828 |
| Other financial assets | **42,864** | 40,948 |
| Other assets | **7,426** | 7,320 |
| **Total assets** | **362,317** | 318,493 |
| | | |
| **Liabilities** | | |
| Bank deposits | **14,182** | 15,505 |
| Customer deposits | **271,208** | 242,117 |
| Amounts due to holding companies and fellow subsidiaries | **35,675** | 21,447 |
| Derivatives | **6,839** | 4,898 |
| Other financial liabilities | **9,020** | 8,307 |
| Subordinated liabilities | **1,303** | 1,242 |
| Other liabilities | **4,816** | 5,305 |
| **Total liabilities** | **343,043** | 298,821 |
| | | |
| **Equity** | | |
| Owners' equity | **19,266** | 19,666 |
| Non-controlling interests | **8** | 6 |
| **Total equity** | **19,274** | 19,672 |
| | | |
| **Total liabilities and equity** | **362,317** | 318,493 |

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

| | Half year ended | |
|---|---|---|
| | **30 June 2020 £m** | 30 June 2019 £m |
| **Called up share capital** - at beginning and end of period | **1,678** | 1,678 |
| **Paid-in equity** - at beginning and end of period | **2,370** | 2,370 |
| **Share premium** - at beginning and end of period | **2,225** | 2,225 |
| **Merger reserve** - at beginning of period | **167** | 412 |
| Amortisation | **(70)** | (130) |
| At end of period | **97** | 282 |
| **FVOCI reserve** - at beginning of period | **250** | 250 |
| Unrealised gains/(losses) | **5** | (18) |
| Realised gains | **(110)** | (10) |
| Tax | **24** | 12 |
| At end of period | **169** | 234 |
| **Cash flow hedging reserve** - at beginning of period | **27** | - |
| Amount recognised in equity | **(250)** | - |
| Amount transferred from equity to earnings | **3** | - |
| Tax | **66** | - |
| At end of period | **(154)** | - |
| **Foreign exchange reserve** - at beginning of period | **(70)** | 15 |
| Retranslation of net assets | **20** | (3) |
| Foreign currency (losses)/gains on hedges of net assets | **(5)** | 2 |
| At end of period | **(55)** | 14 |
| **Capital redemption reserve** - at beginning and end of period | **796** | 796 |
| **Retained earnings** - at beginning of period | **12,223** | 12,121 |
| Implementation of IFRS 16 on 1 January 2019 | **-** | (153) |
| (Loss)/profit attributable to ordinary shareholders and other equity owners | **(35)** | 771 |
| Ordinary dividends | **-** | (700) |
| Paid-in equity dividends paid | **(86)** | (82) |
| Remeasurement of retirement benefit schemes | | |
| - gross | **(34)** | (68) |
| - tax | **25** | 18 |
| Amortisation of merger reserve | **70** | 130 |
| Share-based payments (1) | **(12)** | 93 |
| Shares issues under employee share schemes | **(11)** | (4) |
| At end of period | **12,140** | 12,126 |
| **Owners' equity at end of period** | **19,266** | 19,725 |
| **Non-controlling interests** - at beginning of period | **6** | 7 |
| Profit attributable to non-controlling interests | **2** | 2 |
| At end of period | **8** | 9 |
| **Total equity at end of period** | **19,274** | 19,734 |
| **Attributable to:** | | |
| Ordinary shareholders | **16,896** | 17,355 |
| Paid-in equity holders | **2,370** | 2,370 |
| Non-controlling interests | **8** | 9 |
| | **19,274** | 19,734 |

Note:
(1) For 2019 this includes adjustments to the allocation of deferred awards following the implementation of ring-fencing.

## Condensed consolidated cash flow statement for the half year ended 30 June 2020 (unaudited)

| | Half year ended | |
|---|---|---|
| | **30 June 2020 £m** | 30 June 2019 (1) £m |
| **Operating activities** | | |
| Operating (loss)/profit before tax | **(204)** | 1,055 |
| Adjustments for non-cash items | **(1,180)** | (24) |
| **Net cash (outflow)/inflow from trading activities** | **(1,384)** | 1,031 |
| Changes in operating assets and liabilities | **15,827** | (6,390) |
| **Net cash flows from operating activities before tax** | **14,443** | (5,359) |
| Income taxes paid | **(194)** | (99) |
| **Net cash flows from operating activities** | **14,249** | (5,458) |
| **Net cash flows from investing activities** | **1,074** | (1,923) |
| **Net cash flows from financing activities** | **1,139** | (82) |
| Effects of exchange rate changes on cash and cash equivalents | **985** | 67 |
| **Net increase/(decrease) in cash and cash equivalents** | **17,447** | (7,396) |
| Cash and cash equivalents at beginning of period | **33,266** | 51,448 |
| **Cash and cash equivalents at end of period** | **50,713** | 44,052 |

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

## Notes

### 1. Basis of preparation

NatWest Bank Group 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' as adopted in the EU. They should be read in conjunction with the 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

NatWest Bank Group's business activities and financial position, and the factors likely to affect its future development and performance, are discussed on pages 1 to 39. The risk factors which could materially affect NatWest Bank Group's future results are described on pages 41 and 42.

Having reviewed NatWest Bank Group's forecasts, projections, the potential impact of Covid-19, and other relevant evidence, the directors have a reasonable expectation that NatWest Bank Group will continue in operational existence for the foreseeable future. Accordingly, the results for the period ended 30 June 2020 have been prepared on a going concern basis.

### 2. Accounting policies

NWB Group's principal accounting policies are as set out on pages 87 to 91 of NWB Plc's 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

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. NWB 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. NWB 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. NWB intends to early adopt the phase II standard. NWB Group's IBOR transition program remains on-track and key milestones have been met. NWB Group 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.

#### Amendments 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 the NWB Group's financial statements is immaterial and it 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 NWB Group's financial condition are those relating to deferred tax, fair value of financial instruments, loan impairment provisions and provisions for liabilities and charges. These critical accounting policies and judgements are described on page 91 of NWB Plc's 2019 Annual Report and Accounts. During H1 2020, estimation of 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 Note 9.

## Notes

### 2. Accounting policies continued

#### Information used for significant estimates

The Covid-19 pandemic has continued to cause significant economic and social disruption during the period ended 30 June 2020. Key financial estimates are based on a range of anticipated future economic conditions described by internally developed scenarios. Deferred tax and expected credit losses are highly sensitive to reasonably possible changes in those anticipated conditions. Other reasonably possible assumptions about the future include a prolonged financial effect of the Covid-19 pandemic on the economy of the UK and other countries. Changes in judgements and assumptions could result in a material adjustment to those estimates in the next reporting periods, and this has been considered in the risk factors on pages 41 and 42.

### 3. Operating expenses

| | Half year ended | |
|---|---|---|
| | **30 June 2020 £m** | 30 June 2019 £m |
| Salaries and other | **(909)** | (925) |
| Temporary and contract costs | **(119)** | (172) |
| Social security costs | **(108)** | (109) |
| Pension costs | **(121)** | (114) |
| Variable compensation | **(110)** | (106) |
| Staff costs | **(1,367)** | (1,426) |
| Premises and equipment | **(544)** | (486) |
| Depreciation and amortisation | **(407)** | (391) |
| Other administrative expenses (1) | **(485)** | (873) |
| Impairment of intangible assets | **(7)** | (30) |
| | **(2,810)** | (3,206) |

Note:
(1) Includes litigation and conduct costs. Refer to Note 11 for further details.

### 4. Segmental analysis

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

#### Analysis of operating profit

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

| **Half year ended 30 June 2020** | **Net interest income £m** | **Net fees and commissions £m** | **Other non-interest income £m** | **Total income £m** | **Operating expenses £m** | **Impairment (losses)/ releases £m** | **Operating profit/ loss £m** |
|---|---|---|---|---|---|---|---|
| UK Personal Banking | **1,585** | **162** | **42** | **1,789** | **(877)** | **(547)** | **365** |
| Commercial Banking | **1,136** | **419** | **104** | **1,659** | **(1,005)** | **(1,290)** | **(636)** |
| Private Banking | **238** | **119** | **10** | **367** | **(240)** | **(56)** | **71** |
| Central items & other | **(80)** | **(3)** | **787** | **704** | **(688)** | **(20)** | **(4)** |
| Total | **2,879** | **697** | **943** | **4,519** | **(2,810)** | **(1,913)** | **(204)** |
| Half year ended 30 June 2019 | | | | | | | |
| UK Personal Banking | 1,678 | 287 | 103 | 2,068 | (1,105) | (147) | 816 |
| Commercial Banking | 1,071 | 480 | 113 | 1,664 | (1,121) | (141) | 402 |
| Private Banking | 256 | 104 | 11 | 371 | (265) | 5 | 111 |
| Central items & other | (111) | (8) | 563 | 444 | (715) | (3) | (274) |
| Total | 2,894 | 863 | 790 | 4,547 | (3,206) | (286) | 1,055 |

| | Half year ended | | | | | |
|---|---|---|---|---|---|---|
| | 30 June 2020 | | | 30 June 2019 | | |
| **Total revenue** | **External £m** | **Inter segment £m** | **Total £m** | External £m | Inter segment £m | Total £m |
| UK Personal Banking | **2,318** | **17** | **2,335** | 2,622 | 92 | 2,714 |
| Commercial Banking | **1,568** | **108** | **1,676** | 1,634 | 61 | 1,695 |
| Private Banking | **338** | **115** | **453** | 333 | 133 | 466 |
| Central items & other | **1,082** | **(240)** | **842** | 1,012 | (286) | 726 |
| Total | **5,306** | **-** | **5,306** | 5,601 | - | 5,601 |

## Notes

### 4. Segmental analysis continued

### Analysis of net fees and commissions

| Half year ended 30 June 2020 | UK Personal Banking £m | Commercial Banking £m | Private Banking £m | Central items & other £m | Total £m |
|---|---|---|---|---|---|
| Fees and commissions receivable | | | | | |
| - Lending (credit facilities) | 30 | 142 | 2 | - | 174 |
| - Payment services | 102 | 195 | 14 | - | 311 |
| - Credit and debit card fees | 115 | 44 | 4 | - | 163 |
| - Investment management, trustee and fiduciary services | 1 | - | 102 | - | 103 |
| - Other | 26 | 85 | 18 | (35) | 94 |
| Total | 274 | 466 | 140 | (35) | 845 |
| Fees and commissions payable | (112) | (47) | (21) | 32 | (148) |
| **Net fees and commissions** | 162 | 419 | 119 | (3) | 697 |
| Half year ended 30 June 2019 | | | | | |
| Fees and commissions receivable | | | | | |
| - Lending (credit facilities) | 238 | 136 | 1 | - | 375 |
| - Payment services | 124 | 243 | 16 | - | 383 |
| - Credit and debit card fees | 150 | 55 | 6 | - | 211 |
| - Investment management, trustee and fiduciary services | 18 | 2 | 84 | - | 104 |
| - Other | 27 | 72 | 13 | (16) | 96 |
| Total | 557 | 508 | 120 | (16) | 1,169 |
| Fees and commissions payable | (270) | (28) | (16) | 8 | (306) |
| **Net fees and commissions** | 287 | 480 | 104 | (8) | 863 |

### Total assets and liabilities

| | 30 June 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| | Assets £m | Liabilities £m | Assets £m | Liabilities £m |
| UK Personal Banking | 147,383 | 131,430 | 140,415 | 123,092 |
| Commercial Banking | 85,925 | 117,443 | 75,466 | 99,285 |
| Private Banking | 15,889 | 27,948 | 15,383 | 26,587 |
| Central items & other | 113,120 | 66,222 | 87,229 | 49,857 |
| Total | 362,317 | 343,043 | 318,493 | 298,821 |

### 5. Tax

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

| | Half year ended | |
|---|---|---|
| | 30 June 2020 £m | 30 June 2019 £m |
| (Loss)/profit before tax | (204) | 1,055 |
| Expected tax credit/(charge) | 39 | (201) |
| Foreign profits taxed at other rates | (3) | (5) |
| UK tax rate change impact | 83 | - |
| Items not allowed for tax: | | |
| - losses on disposals and write-downs | (1) | - |
| - UK bank levy | (10) | (8) |
| - regulatory and legal actions | 28 | (10) |
| - other disallowable items | (20) | (39) |
| Non-taxable items: | | |
| - non taxable gain on transfer of fellow subsidiaries | - | 3 |
| - other non-taxable items | 8 | 9 |
| Banking surcharge | 31 | (89) |
| Tax on paid-in equity | 15 | 15 |
| Adjustments in respect of prior periods | 1 | 43 |
| Actual tax credit/(charge) | 171 | (282) |

At 30 June 2020, NatWest Bank Group has recognised a deferred tax asset of £1,347 million (31 December 2019 - £1,230 million) and a deferred tax liability of £162 million (31 December 2019 - £169 million). These include amounts recognised in respect of UK trading losses of £606 million (31 December 2019 - £545 million). Under UK tax legislation, these UK losses can be carried forward indefinitely. NatWest Bank 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.

## 6. Financial instruments: classification

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

| Assets | MFVTPL (1) £m | FVOCI (2) £m | Amortised cost £m | Other assets £m | Total £m |
|---|---|---|---|---|---|
| Cash and balances at central banks | | | **44,911** | | **44,911** |
| Derivatives (3) | **3,586** | | | | **3,586** |
| Loans to banks - amortised cost (4) | | | **3,332** | | **3,332** |
| Loans to customers - amortised cost (5) | | | **256,484** | | **256,484** |
| Amounts due from holding companies and fellow subsidiaries | **520** | **-** | **3,158** | **36** | **3,714** |
| Other financial assets | **622** | **38,261** | **3,981** | | **42,864** |
| Other assets | | | | **7,426** | **7,426** |
| **30 June 2020** | **4,728** | **38,261** | **311,866** | **7,462** | **362,317** |
| Cash and balances at central banks | | | 27,457 | | 27,457 |
| Derivatives (3) | 3,302 | | | | 3,302 |
| Loans to banks - amortised cost (4) | | | 3,325 | | 3,325 |
| Loans to customers - amortised cost (5) | | | 232,313 | | 232,313 |
| Amounts due from holding companies and fellow subsidiaries | 427 | - | 3,389 | 12 | 3,828 |
| Other financial assets | 385 | 36,401 | 4,162 | | 40,948 |
| Other assets | | | | 7,320 | 7,320 |
| 31 December 2019 | 4,114 | 36,401 | 270,646 | 7,332 | 318,493 |

| Liabilities | Held-for-trading £m | Amortised cost £m | Other liabilities £m | Total £m |
|---|---|---|---|---|
| Bank deposits | | **14,182** | | **14,182** |
| Customer deposits | | **271,208** | | **271,208** |
| Amounts due to holding companies and fellow subsidiaries | **-** | **35,675** | **-** | **35,675** |
| Derivatives (3) | **6,839** | | | **6,839** |
| Other financial liabilities | **59** | **8,961** | | **9,020** |
| Subordinated liabilities | | **1,303** | | **1,303** |
| Other liabilities (6) | | **2,437** | **2,379** | **4,816** |
| **30 June 2020** | **6,898** | **333,766** | **2,379** | **343,043** |
| Bank deposits | | 15,505 | | 15,505 |
| Customer deposits | | 242,117 | | 242,117 |
| Amounts due to holding companies and fellow subsidiaries | - | 21,413 | 34 | 21,447 |
| Derivatives (3) | 4,898 | | | 4,898 |
| Other financial liabilities | 114 | 8,193 | | 8,307 |
| Subordinated liabilities | | 1,242 | | 1,242 |
| Other liabilities (6) | | 2,382 | 2,923 | 5,305 |
| 31 December 2019 | 5,012 | 290,852 | 2,957 | 298,821 |

Notes:
(1) Mandatory fair value through profit or loss.
(2) Fair value through other comprehensive income.
(3) Includes net hedging derivative assets of £7 million (31 December 2019 – £13 million) and net hedging derivative liabilities of £200 million (31 December 2019 – £62 million).
(4) Includes items in the course of collection from other third party banks of £3 million (31 December 2019 – £4 million).
(5) Includes finance lease receivables.
(6) Includes lease liabilities of £1,453 million (31 December 2019 – £1,479 million).

## Notes

### 6. Financial instruments: classification continued

The above includes amounts due from/to the holding companies and fellow subsidiaries, as follows:

| | 30 June 2020 | | | 31 December 2019 | | |
|---|---|---|---|---|---|---|
| | **Holding companies £m** | **Fellow subsidiaries £m** | **Total £m** | Holding companies £m | Fellow subsidiaries £m | Total £m |
| Assets | | | | | | |
| Loans to banks and customers | **5** | **3,153** | **3,158** | 156 | 3,233 | 3,389 |
| Other financial assets/other assets | **36** | **520** | **556** | - | 439 | 439 |
| Total inter-group assets | **41** | **3,673** | **3,714** | 156 | 3,672 | 3,828 |
| *Not included above:* | | | | | | |
| Derivatives | **47** | **1,059** | **1,106** | 34 | 946 | 980 |
| Liabilities | | | | | | |
| Bank and customer deposits | **10,181** | **17,562** | **27,743** | 5,998 | 9,512 | 15,510 |
| Other financial liabilities/other liabilities | **3,949** | **435** | **4,384** | 3,116 | 34 | 3,150 |
| Subordinated liabilities | **3,548** | **-** | **3,548** | 2,787 | - | 2,787 |
| Total inter-group liabilities | **17,678** | **17,997** | **35,675** | 11,901 | 9,546 | 21,447 |
| *Not included above:* | | | | | | |
| Derivatives | **121** | **1,704** | **1,825** | 43 | 1,134 | 1,177 |

NatWest Bank Group's financial assets and liabilities include:

| | **30 June 2020 £m** | 31 December 2019 £m |
|---|---|---|
| Reverse repos | | |
| Loans to banks - amortised cost | **162** | 163 |
| Loans to customers - amortised cost | **16,930** | 10,637 |
| Repos | | |
| Bank deposits | **210** | 2,218 |
| Customer deposits | **1,337** | 1,765 |

## Notes

### 6. Financial instruments: 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 NWB Plc's 2019 Annual Report and Accounts. Valuation, sensitivity methodologies and inputs at 30 June 2020 are consistent with those described in Note 11 to the 2019 Annual Report and Accounts.

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

| | 30 June 2020 | | | 31 December 2019 | | |
|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | Level 1 | Level 2 | Level 3 |
| | **£m** | **£m** | **£m** | £m | £m | £m |
| Assets | | | | | | |
| Derivatives | **-** | **3,580** | **6** | - | 3,298 | 4 |
| Amounts due from holding companies and fellow subsidiaries | **-** | **520** | **-** | - | 427 | - |
| Other financial assets | | | | | | |
| Securities | **32,433** | **5,828** | **-** | 31,234 | 5,167 | - |
| Loans - MFVTPL | **-** | **622** | **-** | - | 385 | - |
| Total financial assets held at fair value | **32,433** | **10,550** | **6** | 31,234 | 9,277 | 4 |
| Liabilities | | | | | | |
| Derivatives | **-** | **6,615** | **224** | - | 4,717 | 181 |
| Other financial liabilities | | | | | | |
| Deposits - held-for-trading | **-** | **59** | **-** | - | 114 | - |
| Total financial liabilities held at fair value | **-** | **6,674** | **224** | - | 4,831 | 181 |

Notes:

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

(2) Transfers between levels are deemed to have occurred at the beginning of the quarter in which the instruments were transferred. There were no significant transfers between level 1 and level 2.

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

## Notes

### 6. Financial instruments: 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.

| 30 June 2020 | Items where fair value approximates carrying value £bn | Carrying value £bn | Fair value £bn | Fair value hierarchy level Level 1 £bn | Level 2 £bn | Level 3 £bn |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash and balances at central banks | **44.9** | | | | | |
| Loans to banks | | **3.3** | **3.3** | **-** | **2.4** | **0.9** |
| Loans to customers | | **256.5** | **256.3** | **-** | **17.1** | **239.2** |
| Amounts due from holding companies and fellow subsidiaries | | **3.2** | **3.2** | **-** | **0.4** | **2.8** |
| Other financial assets - securities | | **4.0** | **4.1** | **2.5** | **1.2** | **0.4** |
| **Financial liabilities** | | | | | | |
| Bank deposits | **3.3** | **10.9** | **10.9** | **-** | **10.2** | **0.7** |
| Customer deposits | **234.1** | **37.1** | **37.2** | **-** | **5.9** | **31.3** |
| Amounts due to holding company and fellow subsidiaries | **12.6** | **23.1** | **22.9** | **-** | **10.3** | **12.6** |
| Other financial liabilities | | | | | | |
| Debt securities in issue | | **9.0** | **9.0** | **-** | **5.0** | **4.0** |
| Subordinated liabilities | | **1.3** | **1.3** | **-** | **1.3** | **-** |
| Other liabilities - notes in circulation | **1.0** | | | | | |
| 31 December 2019 | | | | | | |
| **Financial assets** | | | | | | |
| Cash and balances at central banks | 27.5 | | | | | |
| Loans to banks | | 3.3 | 3.3 | - | 2.9 | 0.4 |
| Loans to customers | | 232.3 | 230.5 | - | 10.8 | 219.7 |
| Amounts due from holding companies and fellow subsidiaries | | 3.4 | 3.4 | - | 0.4 | 3.0 |
| Other financial assets - securities | | 4.2 | 4.3 | 2.6 | 1.3 | 0.4 |
| **Financial liabilities** | | | | | | |
| Bank deposits | 2.8 | 12.7 | 12.7 | - | 12.2 | 0.5 |
| Customer deposits | 206.5 | 35.6 | 35.6 | - | 6.4 | 29.2 |
| Amounts due to holding companies and fellow subsidiaries | 4.4 | 17.0 | 16.9 | - | 8.4 | 8.5 |
| Other financial liabilities | | | | | | |
| Debt securities in issue | | 8.2 | 8.2 | - | 5.9 | 2.3 |
| Subordinated liabilities | | 1.2 | 1.3 | - | 1.3 | - |
| Other liabilities - notes in circulation | 0.8 | | | | | |

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

## Notes

### 7. Provisions for liabilities and charges

| | Payment protection insurance (1) £m | Other customer redress £m | Litigation and other regulatory £m | Other (2) £m | Total £m |
|---|---|---|---|---|---|
| **At 1 January 2020** | **732** | **124** | **44** | **465** | **1,365** |
| ECL impairment charge | - | - | - | 58 | 58 |
| Currency translation and other movements | - | - | - | (5) | (5) |
| Charge to income statement | 1 | 43 | - | 88 | 132 |
| Release to income statement | (161) | (4) | (1) | (52) | (218) |
| Provisions utilised | (262) | (43) | - | (128) | (433) |
| **At 30 June 2020** | **310** | **120** | **43** | **426** | **899** |

Notes:
(1) The balance at 30 June 2020 includes provisions held in relation to offers made in 2019 and earlier years of £82 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 (PPI)

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 NWB Group has a release of £161 million in H1. NWB 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.

### 8. Dividends

No ordinary dividend was paid for the period ended 30 June 2020 (H1 2019 – £700 million).

### 9. Loan impairment provisions

#### Economic loss drivers

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 base rate. 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, NWB 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.

## Notes

### 9. Loan impairment provisions continued

Five-year average

| UK | 30 June 2020 Upside % | Central 1 % | Central 2 % | Downside % | 31 December 2019 Upside 2 % | Upside 1 % | Base case % | Downside 1 % | Downside 2 % |
|---|---|---|---|---|---|---|---|---|---|
| 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 - change | **(0.5)** | **(1.2)** | **(2.3)** | **(8.6)** | 2.7 | 1.7 | (0.1) | (1.0) | (3.0) |
| 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 |

UK GDP – annual growth

| | Upside % | Central 1 % | Central 2 % | Downside % |
|---|---|---|---|---|
| 2020 | **(8.9)** | **(14.3)** | **(14.1)** | **(16.9)** |
| 2021 | **10.1** | **15.4** | **11.2** | **5.3** |
| 2022 | **2.7** | **3.4** | **2.3** | **6.4** |
| 2023 | **1.6** | **1.6** | **2.0** | **1.7** |
| 2024 | **1.6** | **1.6** | **1.6** | **1.6** |

UK unemployment rate

| | Upside % | Central 1 % | Central 2 % | Downside % |
|---|---|---|---|---|
| Q4 2020 | **7.4** | **9.2** | **9.8** | **14.4** |
| Q4 2021 | **4.8** | **5.0** | **7.8** | **10.9** |
| Q4 2022 | **4.1** | **4.0** | **6.7** | **9.1** |
| Q4 2023 | **4.1** | **4.0** | **6.0** | **7.6** |
| Q4 2024 | **4.1** | **4.0** | **5.9** | **6.9** |

UK House Price Inflation – annual growth

| | Upside % | Central 1 % | Central 2 % | Downside % |
|---|---|---|---|---|
| 2020 | **(0.1)** | **(8.9)** | **(9.3)** | **(11.5)** |
| 2021 | **0.6** | **3.6** | **(5.1)** | **(14.9)** |
| 2022 | **2.4** | **6.4** | **7.1** | **0.7** |
| 2023 | **3.5** | **3.2** | **6.4** | **1.5** |
| 2024 | **3.8** | **2.6** | **3.5** | **1.6** |

UK commercial real estate price – annual change

| | Upside % | Central 1 % | Central 2 % | Downside % |
|---|---|---|---|---|
| 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 | |
| UK | Upside % | Central 1 % | Central 2 % | Downside % | Downside 1 % | Downside 2 % |
| 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) |

## 9. Loan impairment provisions continued

### Probability weightings of scenarios

The NWB Group's approach to IFRS 9 multiple economic scenarios (MES) involves selecting a suitable set of discrete scenarios to characterise the distribution of risks in the economic outlook and assigning appropriate probability weights.

The scale of the economic impact of Covid-19 and the range of recovery paths necessitates a change of approach to assigning probability weights from that used in recent updates. Previously GDP paths for NWB Group's scenarios were compared against a set of 1,000 model runs, following which a percentile in the distribution was established that most closely corresponded to the scenario. This approach does not produce meaningful outcomes in the current circumstances because GDP is highly volatile and highly uncertain.

Instead, NWB Group has subjectively applied probability weights, reflecting expert views within NWB Group. The probability weight assignment was judged to present good coverage to the central scenarios and the potential for a 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. NWB 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 NWB 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 NWB 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.

## Notes

### 9. Loan impairment provisions continued

NWB 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 31 December 2019 of £111 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.

For Wholesale customers, at H1 2020, lifetime PD deterioration remains the primary driver of SICR identification, amplified by the forward-looking economics. NWB Group continues to provide support, where appropriate, to existing customers. Those who are deemed either to require a) a prolonged timescale to return within NWB 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, NWB 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 NWB Group operates, but also, among others:

- The timing and nature of governmental exit plans from lockdown 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 NWB 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.

## Notes

### 9. Loan impairment provisions continued

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.

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

#### Measurement uncertainty and ECL sensitivity analysis

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

The focus of the simulations is on ECL provisioning requirements on performing exposures in Stage 1 and Stage 2. The simulations are run on a stand-alone basis and are independent of each other; the potential ECL impacts reflect the simulated impact as at the H1 2020 balance sheet date. As default is an observed event as at the balance sheet date, Stage 3 provisions are not subject to the same level of measurement uncertainty, and therefore have not been considered in this analysis.

The impact arising from the downside, upside and central 1 scenarios was simulated. These scenarios are three of the four discrete scenarios used in the methodology for Personal MES. In the simulations, NWB Group has assumed that the economic macro variables associated with these scenarios replace the existing base case economic assumptions, giving them a 100% probability weighting and thus serving as a single economic scenario.

## 9. Loan impairment provisions continued

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.

| 30 June 2020 | Actual | Upside | Central 1 | Downside |
|---|---|---|---|---|
| Stage 1 modelled exposure (£m) | | | | |
| UK Personal Banking | 118,177 | 129,124 | 125,465 | 87,527 |
| Wholesale | 123,668 | 141,911 | 128,422 | 117,397 |
| Stage 1 modelled ECL (£m) | | | | |
| UK Personal Banking | 125 | 127 | 131 | 92 |
| Wholesale | 167 | 191 | 174 | 168 |
| Stage 1 coverage (%) | | | | |
| UK Personal Banking | 0.11% | 0.10% | 0.10% | 0.10% |
| Wholesale | 0.13% | 0.13% | 0.14% | 0.14% |
| Stage 2 modelled exposure (£m) | | | | |
| UK Personal Banking | 23,852 | 12,904 | 16,563 | 54,502 |
| Wholesale | 44,259 | 26,016 | 39,505 | 50,530 |
| Stage 2 modelled ECL (£m) | | | | |
| UK Personal Banking | 729 | 503 | 612 | 1,351 |
| Wholesale | 1,290 | 533 | 1,074 | 2,002 |
| Stage 2 coverage (%) | | | | |
| UK Personal Banking | 3.05% | 3.90% | 3.70% | 2.48% |
| Wholesale | 2.92% | 2.05% | 2.72% | 3.96% |
| Stage 1 and Stage 2 modelled exposure (£m) | | | | |
| UK Personal Banking | 142,029 | 142,029 | 142,029 | 142,029 |
| Wholesale | 167,927 | 167,927 | 167,927 | 167,927 |
| Stage 1 and Stage 2 modelled ECL (£m) | | | | |
| UK Personal Banking | 854 | 630 | 743 | 1,443 |
| Wholesale | 1,457 | 724 | 1,248 | 2,170 |
| Stage 1 and Stage 2 coverage (%) | | | | |
| UK Personal Banking | 0.60% | 0.44% | 0.52% | 1.02% |
| Wholesale | 0.87% | 0.43% | 0.74% | 1.29% |
| Reconciliation to Stage 1 and Stage 2 ECL (£m) | | | | |
| ECL on modelled exposures | 2,311 | 1,354 | 1,992 | 3,613 |
| ECL on non-modelled exposures | 43 | 43 | 43 | 43 |
| Total Stage 1 and Stage 2 ECL | 2,354 | 1,397 | 2,035 | 3,656 |
| Variance to actual total Stage 1 and Stage 2 ECL | | (957) | (319) | 1,302 |

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) 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 19 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 NWB Plc's 2019 Annual Report and Accounts for the sensitivity analysis carried out at that time.

### Key points

- 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.
- 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 assets for UK Personal Banking was noted. This reflected that a number of assets classed as Stage 2 under the weighted average had only just hurdled the SICR threshold.

## Notes

### 9. Loan impairment provisions continued

#### Loan exposure and impairment metrics

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

| | 30 June 2020 £m | 31 December 2019 £m |
|---|---|---|
| **Loans - amortised cost** | | |
| Stage 1 | **191,638** | 215,111 |
| Stage 2 | **68,272** | 19,392 |
| Stage 3 | **3,513** | 2,835 |
| Inter-Group (1) | **3,158** | 3,389 |
| Total | **266,581** | 240,727 |
| **ECL provisions** (2) | | |
| Stage 1 | **309** | 223 |
| Stage 2 | **2,045** | 518 |
| Stage 3 | **1,444** | 1,281 |
| Inter-Group | **1** | - |
| | **3,799** | 2,022 |
| **ECL provisions coverage** (3,4) | | |
| Stage 1 (%) | **0.16** | 0.10 |
| Stage 2 (%) | **3.00** | 2.67 |
| Stage 3 (%) | **41.10** | 45.19 |
| | **1.43** | 0.85 |

| | Half year ended | |
|---|---|---|
| | 30 June 2020 £m | 30 June 2019 £m |
| **Impairment losses** | | |
| ECL charge (5) | | |
| Stage 1 | **198** | (76) |
| Stage 2 | **1,460** | 122 |
| Stage 3 | **255** | 241 |
| Third party | **1,913** | 287 |
| Inter-Group | **-** | (1) |
| | **1,913** | 286 |
| ECL loss rate - annualised (basis points) | **145.24** | 26.56 |
| Amounts written-off | **177** | 192 |

Notes:
(1) NWB Group's intercompany assets were classified in Stage 1. The ECL attached to these loans was £0.7 million (31 December 2019 – £0.4 million).
(2) Includes £6 million (31 December 2019 – £2 million) related to assets classified as FVOCI.
(3) ECL provisions coverage is calculated as ECL provisions divided by loans.
(4) ECL provisions coverage and ECL loss rates are calculated on third party loans and related ECL provisions and charge respectively.
(5) Includes a £4 million charge (30 June 2019 – £29 million charge) related to other financial assets, of which a £3 million charge (30 June 2019 – £1 million charge) related to assets classified as FVOCI; and a £6 million release (30 June 2019 – £27 million charge) related to contingent liabilities.
(6) The table above shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to page 15 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 totaling £44.4 billion and debt securities of £41.8 billion (31 December 2019 – £26.8 billion and £40.2 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.

## Notes

### 9. Loan impairment provisions 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 (1) | | | | Off-balance sheet | | ECL provisions | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **30 June 2020** | **Stage 1 £m** | **Stage 2 £m** | **Stage 3 £m** | **Total £m** | **Loan commitments £m** | **Contingent liabilities £m** | **Stage 1 £m** | **Stage 2 £m** | **Stage 3 £m** | **Total £m** |
| Personal | **131,252** | **23,803** | **1,656** | **156,711** | **31,001** | **41** | **129** | **730** | **688** | **1,547** |
| Mortgages | **124,795** | **20,301** | **1,012** | **146,108** | **7,327** | **3** | **15** | **148** | **150** | **313** |
| Credit cards | **1,737** | **1,000** | **78** | **2,815** | **12,986** | **-** | **34** | **195** | **62** | **291** |
| Other personal | **4,720** | **2,502** | **566** | **7,788** | **10,688** | **38** | **80** | **387** | **476** | **943** |
| Wholesale | **60,387** | **44,469** | **1,857** | **106,713** | **47,501** | **2,400** | **180** | **1,315** | **756** | **2,251** |
| Property | **15,637** | **7,469** | **541** | **23,647** | **8,262** | **270** | **79** | **225** | **215** | **519** |
| Financial institutions | **21,600** | **2,038** | **4** | **23,642** | **3,117** | **120** | **8** | **31** | **2** | **41** |
| Sovereign | **3,192** | **-** | **-** | **3,192** | **655** | **1** | **5** | **-** | **-** | **5** |
| Corporate | **19,958** | **34,962** | **1,312** | **56,232** | **35,467** | **2,009** | **88** | **1,059** | **539** | **1,686** |
| *Of which:* | | | | | | | | | | |
| *Airlines and aerospace* | ***400*** | ***1,060*** | ***32*** | ***1,492*** | ***1,196*** | ***50*** | ***2*** | ***30*** | ***16*** | ***48*** |
| *Automotive* | ***1,492*** | ***4,133*** | ***140*** | ***5,765*** | ***2,943*** | ***49*** | ***5*** | ***92*** | ***14*** | ***111*** |
| *Education* | ***510*** | ***781*** | ***80*** | ***1,371*** | ***692*** | ***18*** | ***1*** | ***25*** | ***14*** | ***40*** |
| *Health* | ***1,043*** | ***2,314*** | ***91*** | ***3,448*** | ***315*** | ***4*** | ***4*** | ***78*** | ***27*** | ***109*** |
| *Land transport and logistics* | ***827*** | ***2,356*** | ***103*** | ***3,286*** | ***2,614*** | ***77*** | ***5*** | ***70*** | ***40*** | ***115*** |
| *Leisure* | ***2,028*** | ***4,585*** | ***333*** | ***6,946*** | ***718*** | ***53*** | ***15*** | ***190*** | ***130*** | ***335*** |
| *Oil and gas* | ***318*** | ***939*** | ***36*** | ***1,293*** | ***1,144*** | ***304*** | ***1*** | ***24*** | ***24*** | ***49*** |
| *Retail* | ***2,560*** | ***3,604*** | ***187*** | ***6,351*** | ***3,752*** | ***376*** | ***7*** | ***116*** | ***141*** | ***264*** |
| *Shipping* | ***213*** | ***480*** | ***5*** | ***698*** | ***89*** | ***23*** | ***1*** | ***41*** | ***8*** | ***50*** |
| *Textiles* | ***63*** | ***65*** | ***3*** | ***131*** | ***52*** | ***4*** | ***-*** | ***1*** | ***2*** | ***3*** |
| Total | **191,639** | **68,272** | **3,513** | **263,424** | **78,502** | **2,441** | **309** | **2,045** | **1,444** | **3,798** |

| | Loans - amortised cost (1) | | | | Off-balance sheet | | ECL provisions | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 31 December 2019 | Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m | Loan commitments £m | Contingent liabilities £m | Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m |
| Personal | 136,598 | 10,502 | 1,460 | 148,560 | 33,126 | 43 | 98 | 365 | 617 | 1,080 |
| Mortgages | 128,514 | 7,783 | 895 | 137,192 | 10,376 | 3 | 11 | 58 | 140 | 209 |
| Credit cards | 2,302 | 911 | 81 | 3,294 | 12,369 | - | 32 | 100 | 64 | 196 |
| Other personal | 5,782 | 1,808 | 484 | 8,074 | 10,381 | 40 | 55 | 207 | 413 | 675 |
| Wholesale | 78,513 | 8,890 | 1,375 | 88,778 | 38,229 | 2,486 | 125 | 153 | 664 | 942 |
| Property | 18,134 | 1,604 | 398 | 20,136 | 7,801 | 318 | 26 | 27 | 186 | 239 |
| Financial institutions | 16,554 | 163 | 6 | 16,723 | 1,872 | 116 | 8 | 2 | 2 | 12 |
| Sovereign | 2,933 | 1 | - | 2,934 | 683 | - | 3 | - | - | 3 |
| Corporate | 40,892 | 7,122 | 971 | 48,985 | 27,873 | 2,052 | 88 | 124 | 476 | 688 |
| *Of which:* | | | | | | | | | | |
| *Airlines and aerospace* | *926* | *253* | *35* | *1,214* | *699* | *68* | *2* | *2* | *46* | *50* |
| *Automotive* | *4,400* | *1,053* | *13* | *5,466* | *2,508* | *49* | *11* | *9* | *9* | *29* |
| *Education* | *1,095* | *150* | *9* | *1,254* | *618* | *18* | *2* | *4* | *1* | *7* |
| *Health* | *2,656* | *499* | *91* | *3,246* | *331* | *9* | *5* | *8* | *24* | *37* |
| *Land transport and logistics* | *2,629* | *195* | *48* | *2,872* | *2,431* | *80* | *5* | *8* | *18* | *31* |
| *Leisure* | *4,058* | *865* | *234* | *5,157* | *1,467* | *56* | *17* | *16* | *72* | *105* |
| *Oil and gas* | *1,256* | *79* | *40* | *1,375* | *717* | *276* | *1* | *1* | *21* | *23* |
| *Retail* | *4,388* | *1,013* | *210* | *5,611* | *3,407* | *415* | *9* | *10* | *146* | *165* |
| *Shipping* | *362* | *360* | *3* | *725* | *282* | *43* | *-* | *15* | *1* | *16* |
| *Textiles* | *98* | *25* | *2* | *125* | *86* | *4* | *-* | *-* | *2* | *2* |
| Total | 215,111 | 19,392 | 2,835 | 237,338 | 71,355 | 2,529 | 223 | 518 | 1,281 | 2,022 |

Note:
(1) The table was prepared consistently with NWB Group's 2019 Annual Report and Accounts, in which, loans - amortised cost represent gross loans to customers and banks.

## 9. Loan impairment provisions continued

### 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 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.

### Sector performance in Wholesale portfolios

The nature of the Covid-19 crisis is such that the impact on customers varies significantly by industry sector. NWB 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, NWB 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.

### PD driven SICR in Wholesale portfolios

NWB 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 19% with a three basis point reduction on good book ECL coverage.

## Notes

### 9. Loan impairment provisions continued

#### Flow statements

The flow statements that follow show the main ECL and related income statement movements. They also show the changes in ECL as well as the changes in related financial assets used in determining ECL. Due to differences in scope, exposures 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 any 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 staging at the start of the analysis period.
- All movements are captured monthly and aggregated. Interest suspended post default is included within Stage 3 ECL with the movement in the value of suspended interest during the year reported under currency translation and other adjustments.

| | Stage 1 | | Stage 2 | | Stage 3 | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Financial assets | ECL | Financial assets | ECL | Financial assets | ECL | Financial assets | ECL |
| **NWB Group total** | £m | £m | £m | £m | £m | £m | £m | £m |
| **At 1 January 2020** | **270,693** | **223** | **19,954** | **518** | **3,182** | **1,281** | **293,829** | **2,022** |
| Currency translation and other adjustments | **2,618** | **(3)** | **122** | **(1)** | **28** | **27** | **2,768** | **23** |
| Inter-Group transfers | **47** | **-** | **24** | **-** | **-** | **-** | **71** | **-** |
| Transfers from Stage 1 to Stage 2 | **(62,176)** | **(273)** | **62,176** | **273** | **-** | **-** | **-** | **-** |
| Transfers from Stage 2 to Stage 1 | **8,231** | **148** | **(8,231)** | **(148)** | **-** | **-** | **-** | **-** |
| Transfers to Stage 3 | **(238)** | **(1)** | **(1,232)** | **(108)** | **1,470** | **109** | **-** | **-** |
| Transfers from Stage 3 | **70** | **17** | **532** | **51** | **(602)** | **(68)** | **-** | **-** |
| Net re-measurement of ECL on stage transfer | | **(126)** | | **1,085** | | **209** | | **1,168** |
| Changes in risk parameters (model inputs) | | **241** | | **387** | | **107** | | **735** |
| Other changes in net exposure | **51,910** | **83** | **(2,134)** | **(12)** | **(229)** | **(21)** | **49,547** | **50** |
| Other (P&L only items) | | **-** | | **-** | | **(40)** | | **(40)** |
| Income statement charges | | **198** | | **1,460** | | **255** | | **1,913** |
| Amounts written-off | **-** | **-** | **-** | **-** | **(177)** | **(177)** | **(177)** | **(177)** |
| *Of which: portfolio debt sales* | ***-*** | ***-*** | ***-*** | ***-*** | ***(22)*** | ***(22)*** | ***(22)*** | ***(22)*** |
| Unwinding of discount | | **-** | | **-** | | **(23)** | | **(23)** |
| **At 30 June 2020** | **271,155** | **309** | **71,211** | **2,045** | **3,672** | **1,444** | **346,038** | **3,798** |
| Net carrying amount | **270,846** | | **69,166** | | **2,228** | | **342,240** | |
| **At 1 January 2019** | 266,834 | 184 | 17,393 | 452 | 3,071 | 1,163 | 287,298 | 1,799 |
| 2019 movements | (3,561) | - | 426 | (6) | 2 | 125 | (3,133) | 119 |
| **At 30 June 2019** | 263,273 | 184 | 17,819 | 446 | 3,073 | 1,288 | 284,165 | 1,918 |
| Net carrying amount | 263,089 | | 17,373 | | 1,785 | | 282,247 | |

**Notes**

**9. Loan impairment provisions** continued

Flow statements

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

| | Stage 1 | | Stage 2 | | Stage 3 | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Financial assets | ECL | Financial assets | ECL | Financial assets | ECL | Financial assets | ECL |
| **UK Personal Banking - mortgages** | £m | £m | £m | £m | £m | £m | £m | £m |
| **At 1 January 2020** | **118,299** | **11** | **7,697** | **58** | **816** | **128** | **126,812** | **197** |
| Currency translation and other adjustments | **-** | **-** | **-** | **-** | **6** | **6** | **6** | **6** |
| Transfers from Stage 1 to Stage 2 | **(15,585)** | **(5)** | **15,585** | **5** | **-** | **-** | **-** | **-** |
| Transfers from Stage 2 to Stage 1 | **2,464** | **7** | **(2,464)** | **(7)** | **-** | **-** | **-** | **-** |
| Transfers to Stage 3 | **(9)** | **-** | **(240)** | **(8)** | **249** | **8** | **-** | **-** |
| Transfers from Stage 3 | **7** | **-** | **114** | **7** | **(121)** | **(7)** | **-** | **-** |
| Net re-measurement of ECL on stage transfer | | **(6)** | | **82** | | **3** | | **79** |
| Changes in risk parameters (model inputs) | | **9** | | **14** | | **23** | | **46** |
| Other changes in net exposure | **8,204** | **(1)** | **(399)** | **(3)** | **(74)** | **(5)** | **7,731** | **(9)** |
| Other (P&L only items) | | **-** | | **-** | | **(8)** | | **(8)** |
| Income statement charges | | **2** | | **93** | | **13** | | **108** |
| Amounts written-off | **-** | **-** | **-** | **-** | **(6)** | **(6)** | **(6)** | **(6)** |
| Other movements | | **-** | | **-** | | **(11)** | | **(11)** |
| **At 30 June 2020** | **113,380** | **15** | **20,293** | **148** | **870** | **139** | **134,543** | **302** |
| Net carrying amount | **113,365** | | **20,145** | | **731** | | **134,241** | |
| **At 1 January 2019** | 107,618 | 8 | 7,268 | 50 | 760 | 114 | 115,646 | 172 |
| 2019 movements | 2,135 | - | 337 | 2 | 25 | 2 | 2,497 | 4 |
| **At 30 June 2019** | 109,753 | 8 | 7,605 | 52 | 785 | 116 | 118,143 | 176 |
| Net carrying amount | 109,745 | | 7,553 | | 669 | | 117,967 | |

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.

## Notes

### 9. Loan impairment provisions continued

Flow statements

| UK Personal Banking - credit cards | Stage 1 Financial assets £m | Stage 1 ECL £m | Stage 2 Financial assets £m | Stage 2 ECL £m | Stage 3 Financial assets £m | Stage 3 ECL £m | Total Financial assets £m | Total ECL £m |
|---|---|---|---|---|---|---|---|---|
| **At 1 January 2020** | **2,108** | **31** | **907** | **99** | **90** | **64** | **3,105** | **194** |
| Transfers from Stage 1 to Stage 2 | **(677)** | **(24)** | **677** | **24** | **-** | **-** | **-** | **-** |
| Transfers from Stage 2 to Stage 1 | **423** | **37** | **(423)** | **(37)** | **-** | **-** | **-** | **-** |
| Transfers to Stage 3 | **(8)** | **-** | **(42)** | **(18)** | **50** | **18** | **-** | **-** |
| Transfers from Stage 3 | **-** | **-** | **3** | **2** | **(3)** | **(2)** | **-** | **-** |
| Net re-measurement of ECL on stage transfer | | **(26)** | | **133** | | **16** | | **123** |
| Changes in risk parameters (model inputs) | | **3** | | **(23)** | | **4** | | **(16)** |
| Other changes in net exposure | **(249)** | **13** | **(116)** | **13** | **(11)** | **(1)** | **(376)** | **25** |
| Other (P&L only items) | | **-** | | **(1)** | | **1** | | **-** |
| Income statement (releases)/charges | | **(10)** | | **122** | | **20** | | **132** |
| Amounts written-off | **-** | **-** | **-** | **-** | **(35)** | **(35)** | **(35)** | **(35)** |
| Other movements | | **-** | | **-** | | **(2)** | | **(2)** |
| **At 30 June 2020** | **1,597** | **34** | **1,006** | **193** | **91** | **62** | **2,694** | **289** |
| Net carrying amount | **1,563** | | **813** | | **29** | | **2,405** | |
| **At 1 January 2019** | 1,896 | 26 | 904 | 87 | 73 | 50 | 2,873 | 163 |
| 2019 movements | (35) | (1) | (26) | (14) | 16 | 13 | (45) | (2) |
| **At 30 June 2019** | 1,861 | 25 | 878 | 73 | 89 | 63 | 2,828 | 161 |
| Net carrying amount | 1,836 | | 805 | | 26 | | 2,667 | |

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.

## Notes

### 9. Loan impairment provisions continued

#### Flow statements

| UK Personal Banking - other personal unsecured | Stage 1 Financial assets £m | Stage 1 ECL £m | Stage 2 Financial assets £m | Stage 2 ECL £m | Stage 3 Financial assets £m | Stage 3 ECL £m | Total Financial assets £m | Total ECL £m |
|---|---|---|---|---|---|---|---|---|
| **At 1 January 2020** | **4,295** | **53** | **1,792** | **206** | **476** | **405** | **6,563** | **664** |
| Currency translation and other adjustments | **-** | **-** | **-** | **-** | **2** | **2** | **2** | **2** |
| Transfers from Stage 1 to Stage 2 | **(1,892)** | **(44)** | **1,892** | **44** | **-** | **-** | **-** | **-** |
| Transfers from Stage 2 to Stage 1 | **607** | **40** | **(607)** | **(40)** | **-** | **-** | **-** | **-** |
| Transfers to Stage 3 | **(4)** | **-** | **(148)** | **(49)** | **152** | **49** | **-** | **-** |
| Transfers from Stage 3 | **1** | **-** | **15** | **5** | **(16)** | **(5)** | **-** | **-** |
| Net re-measurement of ECL on stage transfer | | **(26)** | | **172** | | **45** | | **191** |
| Changes in risk parameters (model inputs) | | **46** | | **70** | | **20** | | **136** |
| Other changes in net exposure | **279** | **9** | **(385)** | **(20)** | **(15)** | **(3)** | **(121)** | **(14)** |
| Other (P&L only items) | | **-** | | **-** | | **(6)** | | **(6)** |
| Income statement charges | | **29** | | **222** | | **56** | | **307** |
| Amounts written-off | **-** | **-** | **-** | **-** | **(43)** | **(43)** | **(43)** | **(43)** |
| Other movements | **-** | **-** | **-** | **-** | **-** | **(6)** | **-** | **(6)** |
| **At 30 June 2020** | **3,286** | **78** | **2,559** | **388** | **556** | **464** | **6,401** | **930** |
| Net carrying amount | **3,208** | | **2,171** | | **92** | | **5,471** | |
| **At 1 January 2019** | 3,931 | 44 | 1,557 | 196 | 388 | 309 | 5,876 | 549 |
| 2019 movements | 131 | 2 | 145 | 1 | 69 | 77 | 345 | 80 |
| **At 30 June 2019** | 4,062 | 46 | 1,702 | 197 | 457 | 386 | 6,221 | 629 |
| Net carrying amount | 4,016 | | 1,505 | | 71 | | 5,592 | |

#### 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 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.

## Notes

### 9. Loan impairment provisions continued

Flow statements

| Commercial Banking - commercial real estate | Stage 1 Financial assets £m | Stage 1 ECL £m | Stage 2 Financial assets £m | Stage 2 ECL £m | Stage 3 Financial assets £m | Stage 3 ECL £m | Total Financial assets £m | Total ECL £m |
|---|---|---|---|---|---|---|---|---|
| **At 1 January 2020** | **14,714** | **20** | **1,456** | **17** | **403** | **157** | **16,573** | **194** |
| Currency translation and other adjustments | **20** | **-** | **1** | **-** | **(2)** | **(3)** | **19** | **(3)** |
| Inter-Group transfers | **(217)** | **-** | **-** | **-** | **-** | **-** | **(217)** | **-** |
| Transfers from Stage 1 to Stage 2 | **(6,147)** | **(30)** | **6,147** | **30** | **-** | **-** | **-** | **-** |
| Transfers from Stage 2 to Stage 1 | **670** | **10** | **(670)** | **(10)** | **-** | **-** | **-** | **-** |
| Transfers to Stage 3 | **(96)** | **-** | **(189)** | **(7)** | **285** | **7** | **-** | **-** |
| Transfers from Stage 3 | **10** | **2** | **169** | **12** | **(179)** | **(14)** | **-** | **-** |
| Net re-measurement of ECL on stage transfer | | **(11)** | | **103** | | **23** | | **115** |
| Changes in risk parameters (model inputs) | | **55** | | **37** | | **16** | | **108** |
| Other changes in net exposure | **2,469** | **17** | **189** | **1** | **(6)** | **7** | **2,652** | **25** |
| Other (P&L only items) | | **-** | | **-** | | **-** | | **-** |
| Income statement charges | | **61** | | **141** | | **46** | | **248** |
| Amounts written-off | **-** | **-** | **-** | **-** | **(6)** | **(6)** | **(6)** | **(6)** |
| Other movements | | **-** | | **-** | | **(1)** | | **(1)** |
| **At 30 June 2020** | **11,423** | **63** | **7,103** | **183** | **495** | **186** | **19,021** | **432** |
| Net carrying amount | **11,360** | | **6,920** | | **309** | | **18,588** | |
| **At 1 January 2019** | 12,785 | 17 | 717 | 8 | 505 | 188 | 14,007 | 213 |
| 2019 movements | 1,071 | 1 | 189 | 5 | (93) | (51) | 1,166 | (45) |
| **At 30 June 2019** | 13,856 | 18 | 906 | 13 | 412 | 137 | 15,173 | 168 |
| Net carrying amount | 13,838 | | 893 | | 275 | | 15,005 | |

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 increased across Stage 1 and Stage 2 as customers draw down on existing facilities and undertake new lending supported by the government schemes.

## Notes

### 9. Loan impairment provisions continued

Flow statements

| | Stage 1 | | Stage 2 | | Stage 3 | | Total | |
|---|---|---|---|---|---|---|---|---|
| Commercial Banking - business banking | Financial assets £m | ECL £m | Financial assets £m | ECL £m | Financial assets £m | ECL £m | Financial assets £m | ECL £m |
| **At 1 January 2020** | **5,123** | **24** | **623** | **37** | **188** | **147** | **5,934** | **208** |
| Currency translation and other adjustments | **-** | **-** | **-** | **-** | **(3)** | **(3)** | **(3)** | **(3)** |
| Transfers from Stage 1 to Stage 2 | **(1,092)** | **(11)** | **1,092** | **11** | **-** | **-** | **-** | **-** |
| Transfers from Stage 2 to Stage 1 | **259** | **19** | **(259)** | **(19)** | **-** | **-** | **-** | **-** |
| Transfers to Stage 3 | **(11)** | **-** | **(65)** | **(13)** | **76** | **13** | **-** | **-** |
| Transfers from Stage 3 | **3** | **1** | **15** | **5** | **(18)** | **(6)** | **-** | **-** |
| Net re-measurement of ECL on stage transfer | | **(18)** | | **74** | | **27** | | **83** |
| Changes in risk parameters (model inputs) | | **7** | | **(9)** | | **8** | | **6** |
| Other changes in net exposure | **3,336** | **5** | **(89)** | **(5)** | **(15)** | **(4)** | **3,232** | **(4)** |
| Other (P&L only items) | | **-** | | **-** | | **(31)** | | **(31)** |
| Income statement (releases)/charges | | **(6)** | | **60** | | **-** | | **54** |
| Amounts written-off | **-** | **-** | **-** | **-** | **(39)** | **(39)** | **(39)** | **(39)** |
| *Of which: portfolio debt sales* | ***-*** | ***-*** | ***-*** | ***-*** | ***(22)*** | ***(22)*** | ***(22)*** | ***(22)*** |
| Other movements | | **-** | | **-** | | **(1)** | | **(1)** |
| **At 30 June 2020** | **7,618** | **27** | **1,317** | **81** | **189** | **142** | **9,124** | **250** |
| Net carrying amount | **7,591** | | **1,236** | | **47** | | **8,874** | |
| **At 1 January 2019** | 4,917 | 18 | 743 | 35 | 170 | 114 | 5,830 | 167 |
| 2019 movements | 123 | (5) | (57) | (8) | 6 | 21 | 72 | 8 |
| **At 30 June 2019** | 5,040 | 13 | 686 | 27 | 176 | 135 | 5,902 | 175 |
| Net carrying amount | 5,027 | | 659 | | 41 | | 5,727 | |

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 increased in Stage 1 as customers draw down on existing facilities and undertake new lending supported by the 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.

**Notes**

**9. Loan impairment provisions** continued

Flow statements

| Commercial Banking - other | Stage 1 Financial assets £m | Stage 1 ECL £m | Stage 2 Financial assets £m | Stage 2 ECL £m | Stage 3 Financial assets £m | Stage 3 ECL £m | Total Financial assets £m | Total ECL £m |
|---|---|---|---|---|---|---|---|---|
| **At 1 January 2020** | **39,836** | **73** | **6,926** | **95** | **1,033** | **354** | **47,795** | **522** |
| Currency translation and other adjustments | **507** | **-** | **114** | **-** | **25** | **26** | **646** | **26** |
| Inter-Group transfers | **239** | **-** | **24** | **-** | **-** | **-** | **263** | **-** |
| Transfers from Stage 1 to Stage 2 | **(34,194)** | **(143)** | **34,194** | **143** | **-** | **-** | **-** | **-** |
| Transfers from Stage 2 to Stage 1 | **3,424** | **27** | **(3,424)** | **(27)** | **-** | **-** | **-** | **-** |
| Transfers to Stage 3 | **(76)** | **-** | **(487)** | **(13)** | **563** | **13** | **-** | **-** |
| Transfers from Stage 3 | **44** | **13** | **213** | **19** | **(257)** | **(32)** | **-** | **-** |
| Net re-measurement of ECL on stage transfer | | **(31)** | | **477** | | **93** | | **539** |
| Changes in risk parameters (model inputs) | | **92** | | **291** | | **37** | | **420** |
| Other changes in net exposure | **5,958** | **36** | **(1,291)** | **1** | **(92)** | **(15)** | **4,575** | **22** |
| Other (P&L only items) | | **1** | | **-** | | **6** | | **7** |
| Income statement charges | | **98** | | **769** | | **121** | | **988** |
| Amounts written-off | **-** | **-** | **-** | **-** | **(46)** | **(46)** | **(46)** | **(46)** |
| Other movements | | **-** | | **-** | | **(2)** | | **(2)** |
| **At 30 June 2020** | **15,738** | **67** | **36,269** | **986** | **1,226** | **428** | **53,233** | **1,481** |
| Net carrying amount | **15,671** | | **35,283** | | **799** | | **51,753** | |
| **At 1 January 2019** | 39,753 | 55 | 5,687 | 65 | 955 | 349 | 46,395 | 469 |
| 2019 movements | 2,078 | 3 | (187) | 9 | 13 | 76 | 1,905 | 88 |
| **At 30 June 2019** | 41,831 | 58 | 5,500 | 74 | 968 | 425 | 48,300 | 557 |
| Net carrying amount | 41,773 | | 5,426 | | 543 | | 47,743 | |

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 have decreased 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 borrowings supported by the government schemes.

## Notes

### 9. Loan impairment provisions continued

### Mortgage LTV distribution by stage

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

| | Mortgages | | | | | | ECL | | | | ECL provisions coverage (2) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| UK Personal Banking 30 June 2020 | Stage 1 £m | Stage 2 £m | Stage 3 £m | Not within IFRS 9 ECL scope £m | Total £m | Of which: Gross new lending £m | Stage 1 £m | Stage 2 £m | Stage 3 £m | Total (1) £m | Stage 1 % | Stage 2 % | Stage 3 % | Total % |
| ≤50% | **39,901** | **3,138** | **335** | **114** | **43,488** | **2,283** | **2** | **16** | **58** | **76** | **-** | **0.5** | **17.1** | **0.2** |
| >50% and ≤70% | **44,244** | **4,965** | **326** | **34** | **49,569** | **4,663** | **5** | **34** | **45** | **84** | **-** | **0.7** | **13.9** | **0.2** |
| >70% and ≤80% | **18,803** | **6,175** | **112** | **7** | **25,097** | **4,684** | **3** | **37** | **17** | **57** | **-** | **0.6** | **15.3** | **0.2** |
| >80% and ≤90% | **9,806** | **5,349** | **56** | **6** | **15,217** | **3,186** | **3** | **46** | **10** | **59** | **-** | **0.9** | **18.0** | **0.4** |
| >90% and ≤100% | **1,955** | **433** | **12** | **3** | **2,403** | **604** | **1** | **8** | **3** | **12** | **-** | **1.9** | **25.0** | **0.5** |
| >100% and ≤110% | **21** | **31** | **5** | **1** | **58** | **-** | **-** | **2** | **1** | **3** | **0.1** | **5.6** | **18.7** | **4.6** |
| >110% and ≤130% | **27** | **46** | **6** | **1** | **80** | **-** | **-** | **3** | **2** | **5** | **0.2** | **6.9** | **30.1** | **6.4** |
| >130% and ≤150% | **9** | **24** | **5** | **-** | **38** | **-** | **-** | **2** | **1** | **3** | **0.1** | **6.9** | **23.8** | **7.4** |
| >150% | **1** | **4** | **3** | **-** | **8** | **-** | **-** | **-** | **1** | **1** | **0.1** | **10.6** | **42.6** | **20.5** |
| Total with LTVs | **114,767** | **20,165** | **860** | **166** | **135,958** | **15,420** | **14** | **148** | **138** | **300** | **-** | **0.7** | **16.1** | **0.2** |
| Other | **14** | **4** | **1** | **-** | **19** | **73** | **-** | **-** | **-** | **-** | **-** | **3.9** | **25.9** | **1.8** |
| Total | **114,781** | **20,169** | **861** | **166** | **135,977** | **15,493** | **14** | **148** | **138** | **300** | **-** | **0.7** | **16.1** | **0.2** |
| 31 December 2019 | | | | | | | | | | | | | | |
| ≤50% | 38,797 | 2,346 | 315 | 147 | 41,605 | 4,441 | 1 | 12 | 53 | 66 | - | 0.5 | 16.8 | 0.2 |
| >50% and ≤70% | 41,878 | 2,794 | 294 | 87 | 45,053 | 8,453 | 2 | 20 | 40 | 62 | - | 0.7 | 13.7 | 0.1 |
| >70% and ≤80% | 21,495 | 1,259 | 103 | 38 | 22,895 | 8,173 | 2 | 10 | 15 | 27 | - | 0.8 | 14.7 | 0.1 |
| >80% and ≤90% | 13,201 | 950 | 56 | 25 | 14,232 | 8,442 | 2 | 9 | 10 | 21 | - | 1.0 | 16.8 | 0.1 |
| >90% and ≤100% | 3,216 | 138 | 12 | 15 | 3,381 | 1,117 | 1 | 3 | 3 | 7 | - | 2.3 | 23.8 | 0.2 |
| >100% and ≤110% | 36 | 25 | 5 | 1 | 67 | - | - | 1 | 1 | 2 | 0.1 | 5.1 | 21.7 | 3.6 |
| >110% and ≤130% | 45 | 35 | 6 | 1 | 87 | - | - | 2 | 2 | 4 | 0.1 | 6.1 | 33.6 | 4.7 |
| >130% and ≤150% | 19 | 22 | 5 | - | 46 | - | - | 1 | 1 | 2 | 0.1 | 6.3 | 26.2 | 6.1 |
| >150% | 3 | 7 | 3 | - | 13 | - | - | - | 2 | 2 | 0.1 | 6.5 | 45.7 | 15.2 |
| Total with LTVs | 118,690 | 7,576 | 799 | 314 | 127,379 | 30,626 | 8 | 58 | 127 | 193 | - | 0.8 | 15.8 | 0.2 |
| Other | 18 | 2 | 1 | - | 21 | 221 | - | - | - | - | - | 0.5 | 36.8 | 1.2 |
| Total | 118,708 | 7,578 | 800 | 314 | 127,400 | 30,847 | 8 | 58 | 127 | 193 | - | 0.8 | 15.8 | 0.2 |

Notes:

(1) Excludes a non-material amount of provisions held on relatively small legacy portfolios.

(2) ECL provisions coverage is ECL provisions divided by drawn mortgages.

### Key points

- ECL coverage rates increase through the LTV bands with only limited exposures in the highest LTV bands. The relatively high coverage level in the lowest LTV band included the effect of time-discounting on expected recoveries. Additionally, this also reflected the modelling approach that recognised an element of expected loss on mortgages that are not subject to formal repossession activity.
- 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.

## Notes

### 10. Contingent liabilities and commitments

The amounts shown in the table below are intended only to provide an indication of the volume of business outstanding at 30 June 2020. Although NWB Group is exposed to credit risk in the event of non-performance of the obligations undertaken by customers, the amounts shown do not, and are not intended to, provide any indication of NWB Group's expectation of future losses.

| | **30 June 2020 £m** | 31 December 2019 £m |
|---|---|---|
| Guarantees (1) | **947** | 1,015 |
| Other contingent liabilities | **1,375** | 1,368 |
| Standby facilities, credit lines and other commitments | **75,627** | 72,592 |
| **Contingent liabilities and commitments** | **77,949** | 74,975 |

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

#### Indemnity deed

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

## Notes

### 11. Litigation, investigations and reviews

NWB Plc and its subsidiary and associated undertakings (NWB 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.

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

In many 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 NWB Group's reputation, businesses and operations. Numerous legal and factual issues may need to be resolved, including through potentially lengthy discovery and document production exercises and determination of important factual matters, and by addressing novel or unsettled legal questions relevant to the proceedings in question, before a liability can reasonably be estimated for any claim. NWB Group cannot predict if, how, or when such claims will be resolved or what the eventual settlement, damages, fine, penalty or other relief, if any, may be, particularly for claims that are at an early stage in their development or where claimants seek substantial or indeterminate damages.

There are situations where NWB Group may pursue an approach that in some instances leads to a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, or in order to take account of the risks inherent in defending claims or investigations, even for those Matters for which NWB Group believes it has credible defences and should prevail on the merits. The uncertainties inherent in all such Matters affect the amount and timing of any potential outflows for both Matters with respect to which provisions have been established and other contingent liabilities.

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

For a discussion of certain risks associated with NWB Group's litigation, investigations and reviews, see the Risk Factor relating to legal, regulatory and governmental actions and investigations set out on page 160 of NWB Group's 2019 Annual Report & Accounts.

#### Litigation

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

In January 2019, a class action antitrust complaint was filed in the United States District Court for the Southern District of New York alleging that the defendants (USD ICE LIBOR panel banks and affiliates) have conspired to suppress USD ICE LIBOR from 2014 to the present by submitting incorrect information to ICE about their borrowing costs. The NatWest Group defendants are NatWest Group plc (formerly The Royal Bank of Scotland Group plc), NatWest Markets Plc, NatWest Markets Securities Inc., and NWB Plc. The defendants made a motion to dismiss this case, which was granted by the court on 26 March 2020. Plaintiffs' appeal of the dismissal is pending in the United States Court of Appeals for the Second Circuit.

#### 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.

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.

## Notes

### 11. Litigation, investigations and reviews continued

#### Investigations and reviews

NWB Group's financial condition can be affected by the actions of various governmental and regulatory authorities in the UK, the US, the EU and elsewhere. NWB Group and/or NatWest Group have engaged, and will continue to engage, in discussions with relevant governmental and regulatory authorities, including in the UK, the US, the EU and elsewhere, on an ongoing and regular basis, and in response to informal and formal inquiries or investigations, regarding operational, systems and control evaluations and issues including those related to compliance with applicable laws and regulations, including consumer protection, business conduct, competition / anti-trust, anti-bribery, anti-money laundering and sanctions regimes.

Any matters discussed or identified during such discussions and inquiries may result in, among other things, further inquiry or investigation, other action being taken by governmental and regulatory authorities, increased costs being incurred by NWB Group, remediation of systems and controls, public or private censure, restriction of NWB Group's business activities and/or fines. Any of the events or circumstances mentioned in this paragraph or below could have a material adverse effect on NWB Group, its business, authorisations and licences, reputation, results of operations or the price of securities issued by it.

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

#### FCA review of NatWest Group's treatment of SMEs

In 2014, the FCA appointed an independent Skilled Person under section 166 of the Financial Services and Markets Act 2000 to review NatWest Group's treatment of SME customers whose relationship was managed by NatWest Group's Global Restructuring Group (GRG) in the period 1 January 2008 to 31 December 2013.

In response to the Skilled Person's final report and update in 2016, NatWest Group announced redress steps for SME customers in the UK and the Republic of Ireland that were in GRG between 2008 and 2013. These steps were (i) an automatic refund of certain complex fees; and (ii) a new complaints process, overseen by an independent third party. The complaints process has since closed to new complaints.

NWB Group's remaining provisions in relation to these matters at 30 June 2020 were £37 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.

NWB Group's remaining provisions in relation to these matters at 30 June 2020 were £3 million.

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.

**Notes**

**11. Litigation, investigations and reviews** continued

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.

**12. Related party transactions**

UK Government

The UK Government and bodies controlled or jointly controlled by the UK Government and bodies over which it has significant influence are related parties of the NWB Group. The NWB Group enters into transactions with many of these bodies on an arm's length basis.

*Bank of England facilities*

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

The NWB Group's other transactions with the UK Government include the payment of taxes, principally UK corporation tax and value added tax; national insurance contributions; local authority rates; and regulatory fees and levies.

*Service entity*

NWB Plc is the main provider of shared service activities for the NatWest Group. This includes Treasury services supporting, as well as providing, services to both the ring-fenced bank (RFB) and non-ring-fenced bank (NRFB).

**13. 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.

**14. Date of approval**

The Interim results for the half year ended 30 June 2020 were approved by the Board of directors on 30 July 2020.

## Independent review report to National Westminster Bank Plc

We have been engaged by National Westminster Bank 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, and related Notes 1 to 14 (together "the condensed consolidated financial statements"). We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated financial statements.

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

## NWB Summary Risk Factors

### Summary of our principal risks and uncertainties

Set out below is a summary of the principal risks and uncertainties for the remaining six months of the financial year which could adversely affect NWB Group. This summary should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties;  a fuller description of these and other risk factors is included on pages 150 to162 of NWB Plc's 2019 Annual Report and Accounts which should be read together with NWB Group's other public disclosures. Any of the risks identified may have a material adverse effect on NWB 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 NWB 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 NWB Group's operating environment.
- NWB 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 NWB Group.
- Changes in interest rates have significantly affected and will continue to affect NWB Group's business and results.  Further decreases in interest rates and/or continued sustained low or negative interest rates would put increased pressure on NWB Group's net interest margins and adversely affect NWB Group's business, results of operations and outlook.
- NWB Group expects to face significant risks in connection with climate change and the transition to a low carbon economy, which may adversely impact NWB Group.
- Changes in foreign currency exchange rates may affect NWB Group's business, results of operations and outlook.
- HM Treasury (or UKGI on its behalf) could exercise a significant degree of influence over NatWest Group and NWB Group is controlled by NatWest Group.

### Strategic risk

- NWB Group's parent company has announced a new Purpose-led strategy which will entail a period of transformation and require an internal cultural shift across NWB Group. It carries significant execution and operational risks (which have been heightened due to the Covid-19 pandemic) and it may not achieve its stated aims and targeted outcomes.
- 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 NWB Group over the next ten years.

### Financial resilience risk

- NWB Group may not meet targets or generate sustainable returns, including as a result of the direct and indirect effects of the Covid-19 pandemic.
- NWB 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.
- NWB Group operates in markets that are highly competitive, with increasing competitive pressures and technology disruption.
- NWB Group may not meet the prudential regulatory requirements for capital or manage its capital effectively, which could trigger the execution of certain management actions or recovery options.
- NWB Group may not be able to adequately access sources of liquidity and funding.
- NWB Group is reliant on NatWest Group for capital and funding support, and is substantially reliant on Natwest Group plc's ability to issue sufficient amounts of external MREL securities and downstream the proceeds to NWB Group.  The inability to do so may adversely affect NWB Group.
- Any reduction in the credit rating and/or outlooks assigned to Natwest Group plc, any of its subsidiaries (including NWB Plc or other NWB Group subsidiaries) or any of their respective debt securities could adversely affect the availability of funding for NWB Group, reduce its liquidity position and increase the cost of funding.
- NWB Group may be adversely affected if NatWest Group fails to meet the requirements of regulatory stress tests.
- NWB Group could incur losses or be required to maintain higher levels of capital as a result of limitations or failure of various models.
- NWB Group's financial statements are sensitive to the underlying accounting policies, judgments, estimates and assumptions.
- Changes in accounting standards may materially impact NWB Group's financial results.

**NWB Summary Risk Factors**

**Financial resilience risk** continued

- NatWest Group (including NWB Group) may become subject to the application of UK statutory stabilisation or resolution powers which may result in, among other actions, the write-down or conversion of NWB Group's Eligible Liabilities.
- NatWest Group is subject to Bank of England oversight in respect of resolution, and the NWM Group could be adversely affected should the Bank of England deem NatWest Group's preparations to be inadequate.

**Operational and IT resilience risk**

- NWB Group is subject to increasingly sophisticated and frequent cyberattacks, which could adversely affect NWB Group.
- NWB Group 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 NWB Group's businesses and have been heightened as a result of the Covid-19 pandemic.
- NWB Group's operations are highly dependent on its complex IT systems (including those that enable remote working), and any IT failure could adversely affect NWB Group.
- NWB Group relies on attracting, retaining and developing senior management and skilled personnel, and is required to maintain good employee relations.
- Due to the fact that most of NWB 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 NWB Group's ability to maintain effective internal controls and governance frameworks. A failure in NWB Group's risk management framework could adversely affect NWB Group, including its ability to achieve its strategic objectives.
- NWB Group's operations are subject to inherent reputational risk.

**Legal, regulatory and conduct risk**

- NWB Group's businesses are subject to substantial regulation and oversight, which are constantly evolving and may adversely affect NWB Group.
- NWB Group is subject to a number of litigation matters, regulatory 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 NWB Group.
- NWB Group may not effectively manage the transition of LIBOR and other IBOR rates to alternative risk free rates.
- NWB Group operates in 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 NWB Group.

## Statement of directors' responsibilities

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

- the condensed financial statements have been prepared in accordance with 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**
Francesca Barnes
Graham Beale
Ian Cormack
Frank Dangeard
Patrick Flynn
Morten Friis
Robert Gillespie
Yasmin Jetha
Baroness Noakes
Mike Rogers
Mark Seligman
Lena Wilson

## Presentation of information

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

NatWest Group plc was renamed from The Royal Bank of Scotland Group plc on 22 July 2020. The term 'NatWest Group' comprises NatWest Group plc and its subsidiary and associated undertakings.

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

### 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.

### Non-IFRS financial measures

As described in Note 1 on page 12, NWB Group prepares its financial statements in accordance with IFRS as issued by the IASB which constitutes a body of generally accepted accounting principles (GAAP). This document contains a number of adjusted or alternative performance measures, also known as non-GAAP or non-IFRS financial measures. These measures are adjusted for certain items which management believe are not representative of the underlying performance of the business and which distort period-on-period comparison. These non-IFRS financial measures are not measures within the scope of IFRS and are not a substitute for IFRS measures. These measures include management analysis of the operating expenses which shows strategic costs and litigation and conduct costs in separate lines on page 3. These amounts are included in staff, premises and equipment and other administrative expenses in the statutory analysis.

### Condensed consolidated financial statements

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

Statutory results on pages 8 to 39 comprising the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated balance sheet, condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and the related notes 1 to 14.

The above sections are within the scope of the independent review performed by Ernst & Young LLP (EY). Refer to the Independent review report to NatWest Bank Plc on page 40 for further information.

## Contact


| | | |
|---|---|---|
| Alexander Holcroft | Investor Relations | +44 (0) 2076721758 |

## 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 NWB Group’s future economic results, business plans and current strategies. In particular, this document may include forward-looking statements relating to NWB Group in respect of, but not limited to: its 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 NWB Group’s exposure to economic and political risks (including with respect to terms surrounding Brexit and climate change), operational risk, conduct risk, cyber and IT risk, key person risk and credit rating risk. Forward-looking statements are subject to a number of risks and uncertainties that might cause actual results and performance to differ materially from any expected future results or performance expressed or implied by the forward-looking statements. Factors that could cause or contribute to differences in current expectations include, but are not limited to, the final number of PPI claims and their amounts, legislative, political, fiscal and regulatory developments, accounting standards, competitive conditions, technological developments, interest and exchange rate fluctuations and general economic and political conditions and the uncertainty surrounding the Covid-19 pandemic and its impact on NWB Group. These and other factors, risks and uncertainties that may impact any forward-looking statement or the NWB Group's actual results are discussed in the NWB Plc's UK 2019 Annual Report and Accounts (ARA) and in the NWB Plc's Interim Results for H1 2019. The forward-looking statements contained in this document speak only as of the date of this document and NWB Plc does not assume or undertake any obligation or responsibility to update any of the forward-looking statements contained in this document, whether as a result of new information, future events or otherwise, except to the extent legally required.

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