



NatWest Markets Group Interim Results 2022

NatWest Markets Group (NWM Group)

Results for the half year ended 30 June 2022

Overview of the half year

In Q2 2022 we have built upon the strong start to the year with further progress of our One Bank initiatives to grow in our target customer segments and markets. Our focus on digital is getting traction in the market with industry-leading pilot transactions and innovative solutions to support customers' FX needs. The new NatWest Group Commercial and Institutional franchise (C&I), which includes NatWest Markets, will provide further opportunities to deepen our customer relationships and help drive sustainable income growth.

Against a backdrop of challenging market conditions and reduced levels of market liquidity in Fixed Income markets, we have overall delivered a stronger financial performance in the first half of the year compared to H1 2021 and maintained our strong capital and liquidity position. We continue to monitor the evolving economic outlook including the continued rise in cost of living and are mindful of the impact that rising inflation, higher interest rates and supply-chain shortages are having on our customers.

Climate and sustainable funding and financing have continued to perform well, and as at the end of H1 2022 we had delivered £10.9 billion towards the NatWest Group climate and sustainable funding and financing target of £100 billion between 1 July 2021 and the end of 2025.

Financial review

NWM Group reported a loss of £86 million for H1 2022 compared with a loss of £119 million in H1 2021. Total income of £438 million was up by £142 million compared with H1 2021, largely reflecting a stronger business performance. Operating expenses increased by £60 million to £540 million in H1 2022, largely due to a litigation and conduct costs credit recognised in H1 2021 which reflected progress in closing legacy matters, partially offset by lower other operating expenses in the current period.

Financial performance

- Total income was £438 million, compared with £296 million in H1 2021. Income excluding asset disposals/strategic risk reduction and own credit adjustments was £418 million in H1 2022, up by £83 million from £335 million in H1 2021, largely driven by stronger performance in Currencies, as FX volatility heightened in the period, and in Capital Markets. Fixed Income performance was down compared with H1 2021, largely reflecting unfavourable market conditions following the Russian invasion of Ukraine in Q1 2022.
- Operating expenses of £540 million in H1 2022 were £60 million higher than £480 million in H1 2021. Litigation and conduct costs of £20 million were £88 million higher than £68 million credit in H1 2021, which reflected progress in closing legacy matters. Other operating expenses were down by £28 million to £520 million in H1 2022, largely reflecting higher technology investment costs recognised in the comparative period.
- NWM Group's total assets and liabilities increased by £24.1 billion and £24.4 billion to £227.1 billion and £220.0 billion respectively at 30 June 2022, compared with 31 December 2021. The increases primarily reflect higher trading assets and liabilities, driven by customer trading activity and the management of balance sheet within limits, and higher settlement balances.
- On 28 July 2022, the NWM Plc Board approved an interim dividend of £180 million, to be declared and payable to NatWest Group plc on 29 July 2022. A £180 million foreseeable dividend deduction has been applied to the H1 2022 regulatory capital position.

Capital and leverage

- Total NWM Plc RWAs were £23.5 billion at 30 June 2022, compared with £22.7 billion at 31 December 2021. The increase in the period reflects higher levels of credit, counterparty credit and market risk, partially offset by a decrease in operational risk. The increase in market risk was largely driven by back-testing exceptions arising from the increased market volatility.
- NWM Plc's Common Equity Tier 1 (CET1) ratio was 16.4% at 30 June 2022, compared with 17.9% at 31 December 2021. The decrease in the period was largely driven by the increase in RWAs, the impact of the foreseeable dividend deduction to regulatory capital, and other reserve movements.
- Total MREL for NWM Plc at 30 June 2022 was £8.6 billion, or 36.8% of RWAs, down from £9.6 billion or 42.1% of RWAs at 31 December 2021. The reduction in the period was largely due to the redemption of a €1.1 billion internal instrument issued to NatWest Group plc.
- NWM Plc's leverage ratio at 30 June 2022 of 4.4% has been calculated in accordance with changes to the UK's leverage ratio framework introduced by the PRA which came into effect from 1 January 2022. As at 31 December 2021, the UK leverage ratio was 4.8%, which was calculated under the prior year's UK leverage methodology.

Liquidity and funding

- NWM Plc's liquidity portfolio at 30 June 2022 was £18.2 billion with an LCR of 206% (31 December 2021 - £16.1 billion with LCR 205%).
- NWM Plc retains full year 2022 guidance of £4-5 billion of public benchmark issuance. NWM Plc issued £3.3 billion of public benchmark transactions in the six months ended 30 June 2022, being a benchmark transaction under the US MTN programme of \$1.5 billion of notes, and three benchmark transactions under the EMTN programme of €1.0 billion, CHF0.3 billion and €1.25 billion of notes respectively. NWM Plc also raised funding in other formats throughout the period such as private placements and secured note transactions.

Outlook ⁽¹⁾

We retain the outlook guidance provided in NatWest Markets Plc 2021 Annual Report and Accounts.

Depending on market conditions in H2 2022, NWM Group intends to continue its plans to issue £4-5 billion in public benchmark issuance.

(1) The targets, expectations and trends discussed in this section represent management's current expectations and are subject to change, including as a result of the factors described in the Risk Factors section on pages 179 to 200 of the NatWest Markets Plc 2021 Annual Report and Accounts, and the Summary Risk Factors set out on pages 47 and 48 of this announcement for H1 2022. These statements constitute forward-looking statements. Refer to Forward-looking statements in this announcement.

Financial review

The table below presents a segmental analysis of key lines of NWM Group's income statement for the half year ended 30 June 2022. Commentary refers to the tables below as well as the consolidated income statement shown on page 24.

	Half year ended 30 June 2022			Half year ended 30 June 2021		
	NatWest Markets £m	Central items & other £m	Total £m	NatWest Markets £m	Central items & other £m	Total £m
Income statement						
Net interest income	29	-	29	(4)	-	(4)
Non-interest income	418	(9)	409	294	6	300
Total income	447	(9)	438	290	6	296
Litigation and conduct costs	(6)	(14)	(20)	2	66	68
Other operating expenses (5)	(505)	(15)	(520)	(544)	(4)	(548)
Operating expenses	(511)	(29)	(540)	(542)	62	(480)
Operating (loss)/profit before impairments	(64)	(38)	(102)	(252)	68	(184)
Impairment (losses)/releases	(5)	-	(5)	16	-	16
Operating (loss)/profit before tax	(69)	(38)	(107)	(236)	68	(168)
Tax credit			21			49
Loss for the period			(86)			(119)
Income (4)						
Fixed Income (1)	23	-	23	43	-	43
Currencies	280	-	280	205	-	205
Capital Markets	217	-	217	166	-	166
Capital Management Unit & other (1,2)	(6)	(9)	(15)	13	6	19
Income including shared revenue, before asset disposals and OCA	514	(9)	505	427	6	433
Revenue shared with or paid to fellow NatWest Group subsidiaries	(87)	-	(87)	(98)	-	(98)
Income excluding asset disposals and OCA	427	(9)	418	329	6	335
Asset disposals/Strategic risk reduction (3)	(32)	-	(32)	(40)	-	(40)
Own credit adjustments (OCA)	52	-	52	1	-	1
Total income	447	(9)	438	290	6	296

- (1) Fixed Income for H1 2021 includes income of £(7) million relating to miscellaneous balances that from Q2 2021 have been included in Capital Management Unit & other.
- (2) Capital Management Unit was set up in Q3 2020 to manage capital usage and optimisation across all parts of NatWest Markets. The income shown here relates to legacy assets. Other relates to income booked to the Central items & other operating segment.
- (3) Asset disposals/Strategic risk reduction relates to the costs of exiting positions, which includes changes in carrying value to align to the expected exit valuation, and the impact of risk reduction transactions entered into, in respect of the strategic announcements of 14 February 2020.
- (4) Product performance includes gross income earned on a NatWest group-wide basis, including amounts contributed to other NatWest Group subsidiaries. Income including shared revenue, before asset disposals and OCA includes revenue share from other NatWest Group subsidiaries but before revenue share is paid to or contributed to those subsidiaries.
- (5) A presentational change was made in Q1 2022 whereby strategic costs are included within Other operating expenses and not reported separately.

- **Net interest income** was £29 million in H1 2022 compared with net expense of £4 million in H1 2021. Net interest income largely represents interest income from lending activity and capital hedges, offset by interest expense from the funding costs of the business. The movement compared with H1 2021 primarily reflects reduced funding costs for the business driven by the ongoing repayment of legacy debt.
- **Non-interest income** of £409 million in H1 2022 increased by £109 million compared with £300 million in H1 2021, largely driven by stronger performance in Currencies, as FX volatility heightened in the period, and in Capital Markets. Fixed Income performance was down from H1 2021, largely reflecting unfavourable market conditions following the Russian invasion of Ukraine in Q1 2022. Own credit adjustments of £52 million were up by £51 million from H1 2021, as credit spreads widened in the period.
- **Operating expenses** were £540 million in H1 2022, compared with £480 million in H1 2021. Litigation and conduct costs of £20 million were up by £88 million from £68 million credit in H1 2021, which reflected progress in closing legacy matters. Other operating expenses decreased to £520 million in H1 2022 from £548 million in H1 2021, largely reflecting higher technology investment costs recognised in the comparative period.
- **NatWest Markets operating loss before tax** was £69 million in H1 2022, compared with £236 million in H1 2021. Income excluding asset disposals and own credit adjustments of £427 million was £98 million higher than £329 million in H1 2021, largely driven by stronger performance in Currencies, as FX volatility heightened in the period, and in Capital Markets. Operating expenses of £511 million were lower compared with £542 million in H1 2021, largely reflecting higher technology investment costs recognised in the comparative period.
- **Central items & other operating loss before tax** was £38 million in H1 2022, compared with a profit of £68 million in H1 2021. Litigation and conduct costs of £66 million credit in the comparative period largely reflected progress in closing legacy matters.

Financial review

The table below presents a segmental analysis of key lines of NWM Group's income statement for the quarter ended 30 June 2022. Commentary refers to the tables below as well as the consolidated income statement shown on page 24.

	Q2 2022			Q1 2022			Q2 2021		
	NatWest Markets	Central items & other	Total	NatWest Markets	Central items & other	Total	NatWest Markets	Central items & other	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Income statement									
Net interest income	15	-	15	14	-	14	3	-	3
Non-interest income	210	(6)	204	208	(3)	205	99	6	105
Total income	225	(6)	219	222	(3)	219	102	6	108
Litigation and conduct costs	(4)	(8)	(12)	(2)	(6)	(8)	2	79	81
Other operating expenses (4)	(230)	(7)	(237)	(275)	(8)	(283)	(285)	(4)	(289)
Operating expenses	(234)	(15)	(249)	(277)	(14)	(291)	(283)	75	(208)
Operating (loss)/profit before impairments	(9)	(21)	(30)	(55)	(17)	(72)	(181)	81	(100)
Impairment (losses)/releases	(4)	-	(4)	(1)	-	(1)	10	-	10
Operating (loss)/profit before tax	(13)	(21)	(34)	(56)	(17)	(73)	(171)	81	(90)
Tax (charge)/credit			(12)			33			32
Loss for the period			(46)			(40)			(58)
Income (3)									
Fixed Income	38	-	38	(15)	-	(15)	5	-	5
Currencies	122	-	122	158	-	158	87	-	87
Capital Markets	96	-	96	121	-	121	92	-	92
Capital Management Unit & other (1)	8	(6)	2	(14)	(3)	(17)	5	6	11
Income including shared revenue, before asset disposals and OCA	264	(6)	258	250	(3)	247	189	6	195
Revenue shared with or paid to fellow NatWest Group subsidiaries	(48)	-	(48)	(39)	-	(39)	(50)	-	(50)
Income excluding Asset disposals and OCA	216	(6)	210	211	(3)	208	139	6	145
Asset disposals/Strategic risk reduction (2)	(25)	-	(25)	(7)	-	(7)	(36)	-	(36)
Own credit adjustments (OCA)	34	-	34	18	-	18	(1)	-	(1)
Total income	225	(6)	219	222	(3)	219	102	6	108

- (1) Capital Management Unit was set up in Q3 2020 to manage capital usage and optimisation across all parts of NatWest Markets. The income shown here relates to legacy assets. Other relates to income booked to the Central items & other operating segment.
- (2) Asset disposals/Strategic risk reduction relates to the costs of exiting positions, which includes changes in carrying value to align to the expected exit valuation, and the impact of risk reduction transactions entered into, in respect of the strategic announcements of 14 February 2020.
- (3) Product performance includes gross income earned on a NatWest group-wide basis, including amounts contributed to other NatWest Group subsidiaries. Income including shared revenue, before asset disposals and OCA includes revenue share from other NatWest Group subsidiaries but before revenue share is paid to or contributed to those subsidiaries.
- (4) A presentational change was made in Q1 2022 whereby strategic costs are included within Other operating expenses and not reported separately.

- **Net interest income** was £15 million in Q2 2022, compared with £14 million in Q1 2022 and £3 million in Q2 2021. Net interest income largely represents interest income from lending activity and capital hedges, offset by interest expense from the funding costs of the business. The movement compared with Q2 2021 primarily reflects reduced funding costs for the business driven by the ongoing repayment of legacy debt.
- **Non-interest income** of £204 million in Q2 2022 was comparable with Q1 2022 and up by £99 million compared with £105 million in Q2 2021. Currencies income decreased from Q1 2022, largely reflecting the heightened FX volatility levels that drove higher revenues in the prior quarter, but was up compared with Q2 2021, when volumes were impacted by low volatility. Capital Markets was down compared with Q1 2022, largely reflecting the impact of higher funding costs and a one-off write-down recognised in the current quarter. Fixed Income performance was up compared with Q1 2022, largely reflecting the release of valuation reserves in the current quarter, in addition to the impact of unfavourable market conditions in the prior quarter following the Russian invasion of Ukraine, and up from Q2 2021, largely reflecting a weaker performance in the comparative period.
- **Operating expenses** were £249 million in Q2 2022, compared with £291 million in Q1 2022 and £208 million in Q2 2021. Litigation and conduct costs of £12 million were £93 million higher than £81 million credit in Q2 2021, which reflected progress in closing legacy matters. Other operating expenses of £237 million in Q2 2022 were lower compared with £283 million in Q1 2022 and £289 million in Q2 2021, largely reflecting higher technology investment costs recognised in the comparative periods.
- **NatWest Markets operating loss before tax** was £13 million compared with £56 million in Q1 2022 and £171 million in Q2 2021. Income excluding asset disposals and own credit adjustments of £216 million was up slightly compared with £211 million in Q1 2022, with an increase in Fixed Income offset by decreases in Currencies and Capital Markets, and up compared with £139 million in Q2 2021, largely reflecting stronger performance in Currencies and Fixed Income. Operating expenses of £234 million in Q2 2022 were lower compared with £277 million in Q1 2022 and £283 million in Q2 2021, largely reflecting higher technology investment costs recognised in the comparative periods.
- **Central items & other operating loss before tax** was £21 million compared with a loss of £17 million in Q1 2022 and a profit of £81 million in Q2 2021. Litigation and conduct costs credit of £79 million in Q2 2021 largely reflected progress in closing legacy matters.

Financial review

Balance sheet profile as at 30 June 2022

NWM Group's balance sheet profile is summarised below. Commentary refers to the table below as well as the consolidated balance sheet on page 25.

	Assets		Liabilities	
	30 June 2022 £bn	31 December 2021 £bn	30 June 2022 £bn	31 December 2021 £bn
Cash and balances at central banks	17.4	16.6		
Securities	24.2	25.0	24.8	25.0
Reverse repos (1)	25.9	20.7	29.4	19.4
Derivative cash collateral given (3)	14.2	12.0	18.0	17.6
Other trading assets	1.1	1.4	1.9	2.5
Total trading assets	65.4	59.1	74.1	64.5
Loans - amortised cost	10.4	8.4	6.6	4.1
Settlement balances	10.3	2.1	9.5	2.1
Amounts due from holding company and fellow subsidiaries	2.9	1.5	5.8	6.1
Other financial assets	10.9	8.8	21.1	19.3
Other assets	0.7	0.9	0.8	1.0
Funded assets	118.0	97.4	117.9	97.1
Derivative assets	109.1	105.6	102.1	98.5
Total assets	227.1	203.0	220.0	195.6
				Total liabilities
				of which:
			23.2	21.1 <i>wholesale funding (5)</i>
			9.3	9.2 <i>short-term wholesale funding (5)</i>
Net derivative assets (6)	5.2	3.6	5.9	2.9 Net derivative liabilities (6)

(1) Comprises bank reverse repos of £10.0 billion (31 December 2021 – £3.9 billion) and customer reverse repos of £15.9 billion (31 December 2021 – £16.8 billion).

(2) Comprises bank repos of £3.1 billion (31 December 2021 – £0.8 billion) and customer repos of £26.3 billion (31 December 2021 – £18.6 billion).

(3) Comprises derivative cash collateral given relating to banks of £5.8 billion (31 December 2021 – £4.3 billion) and customers of £8.4 billion (31 December 2021 – £7.7 billion).

(4) Comprises derivative cash collateral received relating to banks of £8.0 billion (31 December 2021 – £8.1 billion) and customers of £10.0 billion (31 December 2021 – £9.5 billion).

(5) Wholesale funding predominantly comprises bank deposits (excluding repos), debt securities in issue and third party subordinated liabilities, of which short-term wholesale funding is the amount with contractual maturity of one year or less.

(6) Refer to page 13 for further details.

- **Total assets and liabilities** increased by £24.1 billion and £24.4 billion to £227.1 billion and £220.0 billion respectively at 30 June 2022, compared with £203.0 billion and £195.6 billion at 31 December 2021. The increases primarily reflect higher trading assets and liabilities and higher settlement balances.
- **Trading assets** were up by £6.3 billion to £65.4 billion at 30 June 2022, largely reflecting an increase in reverse repos driven by customer flows and the management of balance sheet within limits, and an increase in derivative cash collateral posted, offset partially by a decrease in securities. **Trading liabilities** increased by £9.6 billion to £74.1 billion, largely driven by an increase in repos.
- **Derivative assets and derivative liabilities** were up by £3.5 billion to £109.1 billion and £3.6 billion to £102.1 billion respectively at 30 June 2022, as increases in fair values driven by the strengthening of USD since year end 2021 were largely offset by decreases driven by the impact of increases in interest rates across major currencies.
- **Settlement balance assets and liabilities** were up by £8.2 billion and £7.4 billion to £10.3 billion and £9.5 billion respectively, due to increased trading compared with the seasonally lower levels of customer activity leading up to 31 December 2021.
- **Loans to customers – amortised cost** were up by £1.5 billion to £9.0 billion, largely reflecting new lending in the period.
- **Other financial liabilities** increased by £1.8 billion to £21.1 billion (31 December 2021 – £19.3 billion), largely driven by new issuance in the period, partially offset by maturities. The balance at 30 June 2022 includes £15.5 billion of medium-term notes issued.
- **Owners' equity** was down by £0.4 billion to £7.1 billion (31 December 2021 – £7.5 billion), driven by the interim dividend payment to NatWest Group plc of £0.25 billion on 18 February 2022, and other reserve movements in the period.

Non-IFRS measures

This document contains a number of non-IFRS measures. For details of the basis of preparation and reconciliations, where applicable, refer to the non-IFRS measures section on page 50.

Risk and capital management

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Certain disclosures in the Risk and capital management section are within the scope of EY's review report and are marked as reviewed in the section header.

Market risk (reviewed)

One-day 99% traded internal VaR

The table below shows one-day 99% internal VaR for the trading portfolios of NWM Group, split by exposure type.

	Half year ended												
	30 June 2022					30 June 2021				31 December 2021			
	Average	Maximum	Minimum	Period		Average	Maximum	Minimum	Period	Average	Maximum	Minimum	Period
	£m	£m	£m	end		£m	£m	£m	end	£m	£m	£m	end
Traded internal VaR (1-day 99%)													
Interest rate	7.4	12.6	4.1	6.0	11.3	19.0	4.5	17.4	9.6	25.3	4.7	8.9	
Credit spread	8.5	12.0	6.5	6.9	11.0	13.4	9.4	11.2	11.6	13.2	10.0	10.7	
Currency	2.8	8.0	1.2	2.3	3.9	9.4	2.0	2.4	3.0	8.6	1.7	2.2	
Equity	0.1	0.3	-	-	0.5	0.8	0.2	0.2	0.2	0.5	-	0.2	
Commodity	-	-	-	-	0.2	0.5	-	-	-	0.1	-	-	
Diversification (1)	(8.3)			(6.0)	(13.5)			(15.5)	(11.1)			(10.5)	
Total	10.5	15.1	7.2	9.2	13.4	23.9	9.5	15.7	13.3	21.1	9.3	11.5	

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

- The decrease in average interest rate VaR, compared to both H1 2021 and H2 2021, reflected a reduction in tenor basis risk in sterling flow trading. This followed a regulator-approved update to the VaR model, which was applied in Q3 2021 to address the impact of the transition from LIBOR to alternative risk-free rates.
- Average credit spread VaR also declined because the heightened market volatility in March 2020, resulting from the onset of the COVID-19 crisis, dropped out of the rolling window for VaR calculation during H1 2022.

Risk and capital management

Capital, liquidity and funding risk

Capital, RWAs and leverage

Capital resources, RWAs and leverage based on the PRA transitional arrangements for NWM Plc are set out below. Regulatory capital is monitored and reported at legal entity level for large subsidiaries of NatWest Group.

	30 June 2022	31 December 2021
	%	%
Capital adequacy ratios		
CET1	16.4	17.9
Tier 1	19.2	21.0
Total	23.9	25.9
Total MREL	36.8	42.1
Capital (1)	£m	£m
CET1	3,837	4,072
Tier 1	4,514	4,755
Total	5,597	5,870
Total MREL (2)	8,638	9,555
Risk-weighted assets		
Credit risk	7,603	6,878
Counterparty credit risk	7,028	6,854
Market risk	7,347	6,934
Operational risk	1,478	2,020
Total RWAs	23,456	22,686

(1) CRR end-point for UK banks set by the PRA is 10.5% minimum total capital ratio, with a minimum CET1 ratio of 7.0%, of which the minimum capital requirement is 4.5% and capital conservation buffer is 2.5%.

(2) Includes senior internal debt instruments issued to NatWest Group plc with a regulatory value of £3.0 billion (31 December 2021 - £3.7 billion).

Leverage

The leverage ratio for June 2022 has been calculated in accordance with the Leverage Ratio (CRR) part of the PRA rulebook. The comparatives reflect the previous CRR framework which was applicable prior to 1 January 2022.

	30 June 2022	31 December 2021
Leverage exposure (£m) (3)	102,238	110,603
Tier 1 capital (£m)	4,514	4,755
Leverage ratio (%) (4)	4.4	4.3

(3) 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.

(4) Following the Financial Policy Committee's planned review of the UK's leverage ratio framework, the PRA has introduced changes to the framework from 1 January 2022. The leverage ratio for 30 June 2022 in the above table reflects the UK leverage ratio for NWM Plc, as per the new framework. As at 31 December 2021, the UK leverage ratio was 4.8%, which was calculated under the prior year's PRA UK leverage methodology.

Risk and capital management

Capital, liquidity and funding risk continued

Capital resources (reviewed)

The minimum requirement for own funds is set out for NWM Plc legal entity under the Capital Requirements Regulation. Transitional arrangements on the phasing-in of end-point capital resources are set by the PRA.

	30 June 2022	31 December 2021
	£m	£m
Shareholders' equity		
Shareholders' equity	7,013	7,349
Other equity instruments	(904)	(904)
	6,109	6,445
Regulatory adjustments and deductions		
Own credit	(15)	47
Defined benefit pension fund adjustment	(205)	(202)
Cash flow hedging reserve	133	(46)
Prudential valuation adjustments	(229)	(227)
Expected losses less impairments	(6)	(11)
Instruments of financial sector entities where the institution has a significant investment	(1,770)	(1,685)
Adjustments under IFRS 9 transitional arrangements	-	1
Foreseeable ordinary dividends	(180)	(250)
	(2,272)	(2,373)
CET1 capital	3,837	4,072
Additional Tier 1 (AT1) capital		
Qualifying instruments and related share premium	904	904
Tier 1 deductions		
Instruments of financial sector entities where the institution has a significant investment	(227)	(221)
Tier 1 capital	4,514	4,755
Qualifying Tier 2 capital		
Qualifying instruments and related share premium	1,516	1,490
Tier 2 deductions		
Instruments of financial sector entities where the institution has a significant investment	(434)	(401)
Other regulatory adjustments	1	26
	(433)	(375)
Tier 2 capital	1,083	1,115
Total regulatory capital	5,597	5,870

Risk and capital management

Capital, liquidity and funding risk continued

Leverage exposure

The leverage exposure for June 2022 has been calculated in accordance with the Leverage Exposure (CRR) part of the PRA rulebook. The comparatives reflect the previous CRR framework which was applicable prior to 1 January 2022.

	30 June 2022	31 December 2021
	£m	£m
Leverage		
Cash and balances at central banks	13,956	12,294
Trading assets	43,966	41,222
Derivatives	105,761	103,042
Net loans to customers	27,186	21,988
Other assets	10,680	4,008
Total assets	201,549	182,554
Derivatives		
- netting	(103,111)	(106,317)
- potential future exposures	18,624	32,235
Securities financing transactions gross up	2,382	1,298
Undrawn commitments	5,390	4,993
Regulatory deductions and other adjustments	(7,775)	(3,186)
Exclusion of core UK-group exposures	(895)	(974)
Claims on central banks	(13,926)	-
Leverage exposure (1)	102,238	110,603

(1) Following the Financial Policy Committee's planned review of the UK's leverage ratio framework, the PRA has introduced changes to the framework from 1 January 2022. The leverage exposure for June 2022 in the above table reflects the UK leverage exposure for NWM Plc, as per the new framework. As at 31 December 2021, the UK leverage exposure was £98,317 million which was calculated under the prior year's PRA UK leverage methodology.

Liquidity portfolio (reviewed)

The table below shows the liquidity portfolio by LCR product, with the incorporation of discounts (or haircuts) used within the internal stressed outflow coverage. Secondary liquidity comprises assets eligible for discount at central banks, which do not form part of the liquid asset portfolio for LCR or stressed outflow coverage purposes.

	Liquidity value (1)	
	30 June 2022	31 December 2021
	£m	£m
NatWest Markets Plc		
Cash and balances at central banks	13,933	12,277
AAA to AA- rated governments	4,026	3,457
A+ and lower rated governments	3	18
Government guaranteed issuers, public sector entities and government sponsored entities	14	13
International organisations and multilateral development banks	70	140
LCR level 1 bonds	4,113	3,628
LCR level 1 assets	18,046	15,905
LCR level 2 assets	-	-
Non-LCR eligible assets	-	-
Primary liquidity	18,046	15,905
Secondary liquidity (2)	140	190
Total liquidity value	18,186	16,095

The table below shows the liquidity value of the liquidity portfolio by currency.

	GBP £m	USD £m	EUR £m	Other £m	Total £m
Total liquidity portfolio					
30 June 2022	8,660	3,758	5,763	5	18,186
31 December 2021	7,947	3,010	5,120	18	16,095

(1) Liquidity value was aligned to the internal stressed outflow coverage, which is stated after discounts (or haircuts) are applied to the instruments.

(2) Comprises assets eligible for discounting at the Bank of England and other central banks.

Risk and capital management

Capital, liquidity and funding risk continued

Funding sources (reviewed)

The table below shows NWM Group's carrying values of the principal funding sources based on contractual maturity.

	30 June 2022			31 December 2021		
	Short-term less than 1 year £m	Long-term more than 1 year £m	Total £m	Short-term less than 1 year £m	Long-term more than 1 year £m	Total £m
Bank deposits	1,798	555	2,353	1,244	564	1,808
of which: repos (amortised cost)	655	-	655	522	-	522
Customer deposits	3,687	581	4,268	2,161	107	2,268
of which: repos (amortised cost)	-	-	-	-	-	-
Trading liabilities (1)						
Repos (2)	29,406	-	29,406	19,389	-	19,389
Derivative cash collateral received	17,995	-	17,995	17,619	-	17,619
Other bank and customer deposits	429	657	1,086	832	704	1,536
Debt securities in issue	60	743	803	178	796	974
	47,890	1,400	49,290	38,018	1,500	39,518
Other financial liabilities						
Customer deposits (designated fair value)	542	-	542	568	-	568
Debt securities in issue						
commercial paper and certificates of deposits	4,330	127	4,457	5,179	115	5,294
medium term notes (MTNs)	3,413	12,065	15,478	2,693	9,737	12,430
Subordinated liabilities	228	370	598	275	688	963
	8,513	12,562	21,075	8,715	10,540	19,255
Amounts due to holding company and fellow subsidiaries (3)						
Internal MREL	862	2,200	3,062	939	2,919	3,858
Other bank and customer deposits	947	-	947	623	-	623
Subordinated liabilities	-	1,497	1,497	-	1,464	1,464
	1,809	3,697	5,506	1,562	4,383	5,945
Total funding	63,697	18,795	82,492	51,700	17,094	68,794
<i>Of which: available in resolution (4)</i>			4,066			6,010

(1) Funding sources excludes short positions of £24,761 million (31 December 2021 - £24,964 million) reflected as trading liabilities on the balance sheet.

(2) Comprises Central and other bank repos of £3,147 million (31 December 2021 - £827 million), other financial institution repos of £23,407 million (31 December 2021 - £16,935 million) and other corporate repos of £2,852 million (31 December 2021 - £1,627 million).

(3) Amounts due to holding company and fellow subsidiaries relating to non-financial instruments of £248 million (31 December 2021 - £181 million) have been excluded from the table.

(4) Eligible liabilities (as defined in the Banking Act 2009 as amended from time to time) that meet the eligibility criteria set out in the regulations, rules, policies, guidelines, or statements of the Bank of England including the Statement of Policy published in December 2021 (updating June 2018).

Risk and capital management

Capital, liquidity and funding risk continued

Senior notes and subordinated liabilities - residual maturity profile by instrument type (reviewed)

The table below shows NWM Group's debt securities in issue, subordinated liabilities and internal resolution instruments by residual maturity.

	Trading liabilities	Other financial liabilities				Amounts due to holding company and fellow subsidiaries			Total notes in issue £m
	Debt securities in issue	Debt securities in issue			Total	Internal MREL	Subordinated liabilities		
		Commercial paper and CDs	MTNs	Subordinated liabilities					
	MTNs £m	£m	£m	£m	£m	£m	£m		
30 June 2022									
Less than 1 year	60	4,330	3,413	228	7,971	862	-	8,893	
1-3 years	444	115	5,995	-	6,110	2,200	807	9,561	
3-5 years	61	12	5,490	20	5,522	-	-	5,583	
More than 5 years	238	-	580	350	930	-	690	1,858	
Total	803	4,457	15,478	598	20,533	3,062	1,497	25,895	

31 December 2021

Less than 1 year	178	5,179	2,693	275	8,147	939	-	9,264
1-3 years	335	105	4,907	222	5,234	2,919	824	9,312
3-5 years	112	10	4,425	21	4,456	-	-	4,568
More than 5 years	349	-	405	445	850	-	640	1,839
Total	974	5,294	12,430	963	18,687	3,858	1,464	24,983

The table below shows the currency breakdown of total notes in issue.

	GBP £m	USD £m	EUR £m	Other £m	Total £m
30 June 2022					
Commercial paper and CDs	430	1,135	2,892	-	4,457
MTNs	624	5,915	7,687	2,055	16,281
External subordinated liabilities	21	237	340	-	598
Internal MREL due to NatWest Group plc	-	2,200	862	-	3,062
Subordinated liabilities due to NatWest Group plc	-	690	807	-	1,497
Total	1,075	10,177	12,588	2,055	25,895
31 December 2021	853	9,156	13,467	1,507	24,983

Risk and capital management

Credit risk – Trading activities *(reviewed)*

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

Securities financing transactions and collateral

The table below shows securities financing transactions in NWM Group. Balance sheet captions include balances held at all classifications under IFRS 9.

	Reverse repos			Repos		
	Total £m	Of which: can be offset £m	Outside netting arrangements £m	Total £m	Of which: can be offset £m	Outside netting arrangements £m
30 June 2022						
Gross	53,427	52,677	750	57,184	55,762	1,422
IFRS offset	(27,123)	(27,123)	-	(27,123)	(27,123)	-
Carrying value	26,304	25,554	750	30,061	28,639	1,422
Master netting arrangements	(2,540)	(2,540)	-	(2,540)	(2,540)	-
Securities collateral	(22,768)	(22,768)	-	(26,078)	(26,078)	-
Potential for offset not recognised under IFRS	(25,308)	(25,308)	-	(28,618)	(28,618)	-
Net	996	246	750	1,443	21	1,422
31 December 2021						
Gross	45,511	44,861	650	44,333	43,186	1,147
IFRS offset	(24,422)	(24,422)	-	(24,422)	(24,422)	-
Carrying value	21,089	20,439	650	19,911	18,764	1,147
Master netting arrangements	(900)	(900)	-	(900)	(900)	-
Securities collateral	(19,467)	(19,467)	-	(17,863)	(17,863)	-
Potential for offset not recognised under IFRS	(20,367)	(20,367)	-	(18,763)	(18,763)	-
Net	722	72	650	1,148	1	1,147

Debt securities

The table below shows debt securities held at mandatory fair value through profit or loss by issuer as well as ratings based on the lowest of Standard & Poor's, Moody's and Fitch.

	Central and local government			Financial		Total £m
	UK £m	US £m	Other £m	institutions £m	Corporate £m	
30 June 2022						
AAA	-	-	2,395	1,209	-	3,604
AA to AA+	-	3,840	3,091	1,635	16	8,582
A to AA-	7,074	-	1,445	214	66	8,799
BBB- to A-	-	-	2,433	302	424	3,159
Non-investment grade	-	-	-	51	43	94
Unrated	-	-	-	1	1	2
Total	7,074	3,840	9,364	3,412	550	24,240
Short positions	(7,363)	(2,915)	(12,323)	(2,000)	(160)	(24,761)
31 December 2021						
AAA	-	-	2,011	838	-	2,849
AA to AA+	-	3,329	3,145	1,401	62	7,937
A to AA-	6,919	-	1,950	308	57	9,234
BBB- to A-	-	-	3,792	346	513	4,651
Non-investment grade	-	-	31	163	82	276
Unrated	-	-	-	3	3	6
Total	6,919	3,329	10,929	3,059	717	24,953
Short positions	(9,790)	(56)	(12,907)	(2,074)	(137)	(24,964)

Risk and capital management

Credit risk – Trading activities continued (reviewed)

Derivatives

The table below shows third-party derivatives by type of contract. The master netting agreements and collateral shown do not result in a net presentation on the balance sheet under IFRS.

	30 June 2022					31 December 2021				
	Notional					Assets £m	Liabilities £m	Notional £bn	Assets £m	Liabilities £m
	GBP £bn	USD £bn	Euro £bn	Other £bn	Total £bn					
Gross exposure						108,060	101,469		104,614	97,500
IFRS offset						-	-		-	-
Carrying value	2,782	4,270	5,117	1,301	13,470	108,060	101,469	11,718	104,614	97,500
Of which:										
Interest rate (1)	2,449	2,716	4,517	290	9,972	53,687	47,515	8,558	66,091	57,955
Exchange rate	331	1,550	590	1,011	3,482	54,124	53,665	3,146	38,369	39,202
Credit	2	4	10	-	16	249	289	14	154	343
Equity and commodity	-	-	-	-	-	-	-	-	-	-
Carrying value					13,470	108,060	101,469	11,718	104,614	97,500
Counterparty market-to-market netting						(84,139)	(84,139)		(83,633)	(83,633)
Cash collateral						(14,227)	(10,537)		(14,938)	(9,902)
Securities and collateral						(4,468)	(902)		(2,428)	(1,070)
Net exposure						5,226	5,891		3,615	2,895
Banks (2)						525	975		314	404
Other financial institutions (3)						3,253	2,579		1,549	1,515
Corporate (4)						1,371	2,190		1,683	905
Government (5)						77	147		69	71
Net exposure						5,226	5,891		3,615	2,895
UK						1,981	2,066		1,940	1,030
Europe						1,288	2,044		709	1,008
US						1,573	1,440		645	653
RoW						384	341		321	204
Net exposure						5,226	5,891		3,615	2,895
Asset quality of uncollateralised derivative assets										
AQ1-AQ4						4,537			2,909	
AQ5-AQ8						644			649	
AQ9-AQ10						45			57	
Net exposure						5,226			3,615	

(1) The notional amount of interest rate derivatives includes £7,304 billion (31 December 2021 – £5,830 billion) in respect of contracts cleared through central clearing counterparties.

(2) Transactions with certain counterparties with which NWM Group has netting arrangements but collateral is not posted on a daily basis; certain transactions with specific terms that may not fall within netting and collateral arrangements; derivative positions in certain jurisdictions, for example China, where the collateral agreements are not deemed to be legally enforceable.

(3) Includes transactions with securitisation vehicles and funds where collateral posting is contingent on NWM Group's external rating.

(4) Mainly large corporates with whom NWM Group may have netting arrangements in place, but operational capability does not support collateral posting.

(5) Sovereigns and supranational entities with no collateral arrangements, collateral arrangements that are not considered enforceable, or one-way collateral agreements in their favour.

Risk and capital management

Credit risk – Net credit exposures for banking and trading activities (reviewed)

Asset quality

The table below shows the current and potential exposure by high-level asset class and asset quality. It represents total credit risk for assets held in the banking book in addition to counterparty credit risk for traded products.

	Cash and balances at central banks £m	Sovereign debt securities £m	Loans and other lending £m	Other debt securities £m	Collateralised rate risk management £m	Uncollateralised rate risk management £m	Repo and reverse repo £m	Off-balance sheet items £m	Leasing £m	Total £m
30 June 2022										
AQ1-AQ4	17,361	5,863	8,975	4,625	3,079	2,006	1,793	665	29	44,396
AQ5-AQ8	-	-	937	131	193	398	18	24	-	1,701
AQ9	-	-	-	-	2	9	-	-	-	11
AQ10	-	-	15	1	-	32	-	-	-	48
Current exposure	17,361	5,863	9,927	4,757	3,274	2,445	1,811	689	29	46,156
Potential exposure	17,361	5,863	22,513	4,757	11,731	4,604	2,232	1,749	29	70,839
31 December 2021										
AQ1-AQ4	16,645	5,176	6,998	3,060	2,355	1,520	510	669	49	36,982
AQ5-AQ8	-	-	534	238	327	428	10	29	-	1,566
AQ9	-	-	23	-	2	52	-	-	-	77
AQ10	-	-	21	1	-	2	-	-	-	24
Current exposure	16,645	5,176	7,576	3,299	2,684	2,002	520	698	49	38,649
Potential exposure	16,645	5,176	18,065	3,299	10,493	3,865	1,590	2,014	49	61,196

- Measured against NWM Group’s asset quality scale, 96% (31 December 2021 – 96%) of total current exposure was rated in the AQ1-AQ4 bands, which in the context of external credit ratings was equivalent to an investment grade rating of BBB- or better and a PD range of 0-0.381%.

Risk and capital management

Credit risk – Economics (reviewed)

Economic loss drivers

Introduction

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

The most material economic loss drivers for the UK portfolios include UK GDP, world GDP, the unemployment rate, the house price index, and the Bank of England base rate. Similar metrics are used for other key country exposures in NWM Group.

Economic scenarios

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

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

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

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

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

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

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

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

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

Risk and capital management

Credit risk – Economics continued (reviewed)

Economic loss drivers

Main macroeconomic variables

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

(1) The five year period starts after Q1 2022 for 30 June 2022 and Q3 2021 for 31 December 2021.

(2) CAGR and total change figures are not comparable with 31 December 2021 data, as the starting quarters are different.

Probability weightings of scenarios

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

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

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

Risk and capital management

Credit risk – Economics continued (reviewed)

Economic loss drivers

Annual figures

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

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

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

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

	Upside %	Base case %	Downside %	Extreme downside %
Bank of England base rate - annual average				
2022	1.05	1.28	1.05	1.05
2023	1.63	2.00	1.12	2.31
2024	1.69	2.00	0.10	4.00
2025	1.50	1.75	0.18	3.38
2026	1.44	1.73	0.44	2.25

	Upside %	Base case %	Downside %	Extreme downside %
Consumer price index - four quarter growth				
2022	9.5	8.4	9.3	9.3
2023	(0.9)	1.1	8.1	13.7
2024	2.0	2.0	0.4	6.4
2025	2.0	2.0	1.4	4.2
2026	2.0	2.0	1.7	3.6

Worst points

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

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

Risk and capital management

Credit risk – Economics continued (reviewed)

Economic loss drivers

Use of the scenarios in lending

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

Finally, ECL is calculated using a Monte Carlo approach by averaging probability of default (PD) and loss given default (LGD) values arising from many CCI paths simulated around the central CCI projection.

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

UK economic uncertainty

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

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

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

UK economic uncertainty

Model monitoring and enhancement

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

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

Governance and post model adjustments

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

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

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

Risk and capital management

Credit risk – Economics continued (reviewed)

Measurement uncertainty and ECL sensitivity analysis

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

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

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

The impact arising from the base case, upside, downside and extreme downside scenarios has been simulated. NWM Group has assumed that the economic macro variables associated with these scenarios replace the existing base case economic assumptions, giving them a 100% probability weighting and therefore serving as a single economic scenario.

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

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

	Actual	Base case	Upside	Downside	Extreme downside
30 June 2022					
Stage 1 modelled exposure (£m)	10,112	10,226	10,230	10,044	9,579
Stage 1 modelled ECL (£m)	11	10	8	15	16
Stage 1 coverage (%)	0.11%	0.10%	0.08%	0.15%	0.17%
Stage 2 modelled exposure (£m)	267	153	149	335	800
Stage 2 modelled ECL (£m)	3	2	2	4	28
Stage 2 coverage (%)	1.12%	1.31%	1.34%	1.19%	3.50%
Stage 1 and Stage 2 modelled exposure (£m)	10,379	10,379	10,379	10,379	10,379
Stage 1 and Stage 2 modelled ECL (£m)	14	12	10	19	44
Stage 1 and Stage 2 coverage (%)	0.13%	0.12%	0.10%	0.18%	0.42%
Variance - (lower)/higher to actual total Stage 1 & Stage 2 ECL		(3)	(4)	4	29

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

Risk and capital management

Credit risk – Economics continued (reviewed)

Measurement uncertainty and ECL adequacy

- During the first half of 2022, both the Stage 2 size and overall modelled ECL reduced in line with stable portfolio performance and underlying ECL driver trends. Judgmental ECL post model adjustments, although reduced in value terms from 31 December 2021, continue to reflect economic uncertainty with the expectation of increased defaults later in 2022 and beyond.
- If the economics were as negative as observed in the extreme downside, total Stage 1 and Stage 2 ECL was simulated to increase. In this scenario, Stage 2 exposure increased significantly and was the key driver of the simulated ECL rise. The movement in Stage 2 balances in the other simulations was less significant.
- In the Wholesale portfolio, there was a significant increase to ECL under both the moderate and extreme downsides.

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

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

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

Risk and capital management

Credit risk – Banking activities (reviewed)

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

Portfolio summary

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

	30 June 2022 £m	31 December 2021 £m
Loans - amortised cost and fair value through other comprehensive income (FVOCI)		
Stage 1	10,014	8,301
Stage 2	254	147
Stage 3	62	99
<i>Of which: individual</i>	45	91
<i>Of which: collective</i>	17	8
Inter-Group (1)	660	731
Total	10,990	9,278
ECL provisions		
Stage 1	12	6
Stage 2	3	3
Stage 3	37	75
<i>Of which: individual</i>	27	68
<i>Of which: collective</i>	10	7
Inter-Group	-	-
Total	52	84
ECL provisions coverage (2)		
Stage 1 (%)	0.12	0.07
Stage 2 (%)	1.18	2.04
Stage 3 (%)	59.68	75.76
Inter-Group (%)	-	-
Total	0.50	0.98
	Half year ended	
	30 June 2022 £m	30 June 2021 £m
Impairment losses		
ECL (release)/charge (3)		
Stage 1	2	(8)
Stage 2	4	(5)
Stage 3	(1)	(3)
<i>Of which: individual</i>	-	1
<i>Of which: collective</i>	(1)	(4)
Third party	5	(16)
Inter-Group	-	-
Total	5	(16)
Amounts written off	43	40

(1) NWM Group's intercompany assets were classified in Stage 1. The ECL for these loans was £0.3 million (31 December 2021 – £0.2 million).

(2) ECL provisions coverage is calculated as ECL provisions divided by loans – amortised cost and FVOCI. It is calculated on third party loans and total ECL provisions.

(3) The table shows gross loans only and excludes amounts that are outside the scope of the ECL framework. For further details, refer to Financial instruments within the scope of the IFRS 9 ECL framework on page 76 of the NatWest Markets Plc 2021 Annual Report and Accounts. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totalling £17.4 billion (31 December 2021 – £16.6 billion) and debt securities of £10.7 billion (31 December 2021 – £8.4 billion).

- ECLs are calculated each month, with modelled impairment calculations relying on month in arrears data and individually assessed provisions based on the current month. A quarterly provision adequacy assessment is also performed. Outputs are reviewed by NWM Group senior management, who formally approve ECL levels and ECL coverage as being at appropriate levels, to reflect the current economic situation.
- The significant increase in defaults and losses predicted in 2020 to occur throughout 2021 and early 2022 has not materialised and there has been an immaterial level of Stage 3 defaults so far. The reduction in ECL provisions coverage was due primarily to the write-off of a single legacy asset that defaulted in 2008 and was fully provided for.

Risk and capital management

Credit risk – Banking activities continued (reviewed)

Sector analysis – portfolio summary

The table below shows exposures and ECL by stage, for key sectors.

	Loans - amortised cost and FVOCI				Off-balance sheet		ECL provisions			
	Stage 1	Stage 2	Stage 3	Total	Loan commitments	Contingent liabilities	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
30 June 2022										
Property	79	22	19	120	281	15	1	-	9	10
Financial institutions	9,042	8	-	9,050	6,304	582	7	-	-	7
Sovereign	373	-	3	376	41	-	1	-	2	3
Corporate	520	224	40	784	6,255	98	3	3	26	32
<i>Of which:</i>										
Agriculture	2	-	7	9	1	-	-	-	7	7
Airlines and aerospace	12	-	1	13	167	49	-	-	1	1
Automotive	16	43	-	59	712	-	-	-	-	-
Health	40	-	1	41	-	-	-	-	1	1
Land transport and logistics	13	52	-	65	281	1	-	1	-	1
Leisure	-	12	-	12	303	-	-	-	-	-
Oil and gas	3	-	19	22	453	1	-	-	5	5
Retail	7	-	-	7	296	4	-	-	-	-
Total	10,014	254	62	10,330	12,881	695	12	3	37	52
31 December 2021										
Property	107	-	15	122	251	19	-	-	9	9
Financial institutions	7,284	66	3	7,353	5,864	589	5	2	-	7
Sovereign	296	-	3	299	37	-	1	-	2	3
Corporate	614	81	78	773	4,857	97	-	1	64	65
<i>Of which:</i>										
Agriculture	-	-	40	40	1	-	-	-	40	40
Airlines and aerospace	-	-	7	7	163	44	-	-	6	6
Automotive	10	39	-	49	686	-	-	1	-	1
Health	27	-	2	29	150	-	-	-	1	1
Land transport and logistics	74	1	-	75	230	1	-	-	-	-
Leisure	-	3	-	3	304	-	-	-	-	-
Oil and gas	252	-	17	269	39	1	-	-	4	4
Retail	-	-	-	-	289	4	-	-	-	-
Total	8,301	147	99	8,547	11,009	705	6	3	75	84

Risk and capital management

Credit risk – Banking activities continued (reviewed)

Flow statement

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

- Financial assets include treasury liquidity portfolios, comprising balances at central banks and debt securities, as well as loans. Both modelled and non-modelled portfolios are included.
- Stage transfers (for example, exposures moving from Stage 1 into Stage 2) are a key feature of the ECL movements, with the net re-measurement cost of transitioning to a worse stage being a primary driver of income statement charges. Similarly, there is an ECL benefit for accounts improving stage.
- Changes in risk parameters shows the reassessment of the ECL within a given stage, including any ECL overlays and residual income statement gains or losses at the point of write-off or accounting write-down.
- Other (P&L only items) includes any subsequent changes in the value of written-down assets 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.

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
	£m	£m	£m	£m	£m	£m	£m	£m
NWM Group								
At 1 January 2022	33,383	6	197	3	95	75	33,675	84
Currency translation and other adjustments	1,151	-	13	-	2	5	1,166	5
Inter-Group transfers	65	-	-	-	-	-	65	-
Transfers from Stage 1 to Stage 2	(764)	-	764	-	-	-	-	-
Transfers from Stage 2 to Stage 1	710	4	(710)	(4)	-	-	-	-
Transfers from Stage 3	-	-	-	-	-	-	-	-
Net re-measurement of ECL on stage transfer		(3)		4		-		1
Changes in risk parameters (model inputs)		1		-		-		1
Other changes in net exposure	4,524	4	3	-	14	-	4,541	4
Other (P&L only items)		-		-		(1)		(1)
Income statement releases		2		4		(1)		5
Amounts written-off	-	-	-	-	(43)	(43)	(43)	(43)
Unwinding of discount		-		-		-		-
At 30 June 2022	39,069	12	267	3	68	37	39,404	52
Net carrying amount	39,057	-	264	-	31	-	39,352	-
At 1 January 2021	33,327	12	1,671	49	167	132	35,165	193
2021 movements	(2,015)	(2)	(928)	(12)	(65)	(45)	(3,008)	(59)
At 30 June 2021	31,312	10	743	37	102	87	32,157	134
Net carrying amount	31,302		706		15		32,023	

- The net increase in Stage 2 of £70 million was primarily PD deterioration in two large corporates.
- The write-off in Stage 3 was mainly a result of a single legacy asset that defaulted in 2008 and was fully provided for.

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

	Half year ended	
	30 June 2022	30 June 2021
	£m	£m
Interest receivable	243	179
Interest payable	(214)	(183)
Net interest income	29	(4)
Fees and commissions receivable	180	146
Fees and commissions payable	(77)	(62)
Income from trading activities	296	226
Other operating income	10	(10)
Non-interest income	409	300
Total income	438	296
Staff costs	(213)	(252)
Premises and equipment	(25)	(37)
Other administrative expenses	(291)	(181)
Depreciation and amortisation	(11)	(10)
Operating expenses	(540)	(480)
Loss before impairment (losses)/releases	(102)	(184)
Impairment (losses)/releases	(5)	16
Operating loss before tax	(107)	(168)
Tax credit	21	49
Loss for the period	(86)	(119)
Attributable to:		
Ordinary shareholders	(120)	(189)
Paid-in equity holders	33	31
Non-controlling interests	1	39
	(86)	(119)

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

	Half year ended	
	30 June 2022	30 June 2021
	£m	£m
Loss for the period	(86)	(119)
Items that do not qualify for reclassification		
Remeasurement of retirement benefit schemes	(1)	(1)
Changes in fair value of credit in financial liabilities designated at fair value through profit or loss (FVTPL) due to own credit risk	91	(25)
Fair value through other comprehensive income (FVOCI) financial assets	1	(1)
Tax	(9)	4
	82	(23)
Items that do qualify for reclassification		
FVOCI financial assets	(17)	(8)
Cash flow hedges	(254)	(103)
Currency translation	170	(112)
Tax	78	7
	(23)	(216)
Other comprehensive income/(loss) after tax	59	(239)
Total comprehensive loss for the period	(27)	(358)
Attributable to:		
Ordinary shareholders	(60)	(432)
Paid-in equity holders	33	31
Non-controlling interests	-	43
	(27)	(358)

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

	30 June 2022 £m	31 December 2021 £m
Assets		
Cash and balances at central banks	17,361	16,645
Trading assets	65,375	59,101
Derivatives	109,138	105,550
Settlement balances	10,289	2,139
Loans to banks - amortised cost	1,452	962
Loans to customers - amortised cost	8,950	7,471
Amounts due from holding company and fellow subsidiaries	2,885	1,479
Other financial assets	10,852	8,786
Other assets	831	878
Total assets	227,133	203,011
Liabilities		
Bank deposits	2,353	1,808
Customer deposits	4,268	2,268
Amounts due to holding company and fellow subsidiaries	5,754	6,126
Settlement balances	9,540	2,068
Trading liabilities	74,051	64,482
Derivatives	102,111	98,497
Other financial liabilities	21,075	19,255
Other liabilities	866	1,055
Total liabilities	220,018	195,559
Equity		
Owners' equity	7,118	7,455
Non-controlling interests	(3)	(3)
Total equity	7,115	7,452
Total liabilities and equity	227,133	203,011

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

	Half year ended	
	30 June 2022	30 June 2021
	£m	£m
Called up share capital - at beginning and end of period	400	400
Share premium account - at beginning and end of period	1,946	1,759
Paid-in equity - at beginning and end of period	904	904
FVOCI reserve - at beginning of period	33	34
Unrealised losses	(23)	(10)
Realised losses	1	2
Tax	4	1
At end of period	15	27
Cash flow hedging reserve - at beginning of period	47	201
Amount recognised in equity	(238)	(118)
Amount transferred from equity to earnings	(16)	15
Tax	74	12
At end of period	(133)	110
Foreign exchange reserve - at beginning of period	(13)	121
Retranslation of net assets	213	(131)
Foreign currency (losses)/gain on hedges of net assets	(42)	15
Tax	-	(6)
At end of period	158	(1)
Retained earnings - at beginning of period	4,138	5,969
Loss attributable to ordinary shareholders and other equity owners	(87)	(158)
Ordinary dividends paid	(250)	(750)
Paid-in equity dividends paid	(33)	(31)
Remeasurement of retirement benefit schemes		
- gross	(1)	(1)
- tax	-	2
Realised gains/(losses) in period on FVOCI equity shares	6	(1)
Changes in fair value of credit in financial liabilities designated as fair value through profit or loss		
- gross	91	(25)
- tax	(9)	2
Share-based payments	(27)	(62)
At end of period	3,828	4,945
Owners' equity at end of period	7,118	8,144
Non-controlling interests - at beginning of period	(3)	(46)
Currency translation adjustments and other movements	(1)	4
Profit attributable to non-controlling interests	1	39
At end of period	(3)	(3)
Total equity at end of period	7,115	8,141
Attributable to:		
Ordinary shareholders	6,214	7,240
Paid-in equity holders	904	904
Non-controlling interests	(3)	(3)
	7,115	8,141

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

	Half year ended	
	30 June 2022 £m	30 June 2021 £m
Operating activities		
Operating loss before tax	(107)	(168)
Adjustments for non-cash items	(634)	516
Net cash flows from trading activities	(741)	348
Changes in operating assets and liabilities	13,593	3,252
Net cash flows from operating activities before tax	12,852	3,600
Income taxes paid	(36)	(26)
Net cash flows from operating activities	12,816	3,574
Net cash flows from investing activities	(2,106)	313
Net cash flows from financing activities	(1,572)	(2,047)
Effects of exchange rate changes on cash and cash equivalents	1,040	(758)
Net increase in cash and cash equivalents	10,178	1,082
Cash and cash equivalents at beginning of period	25,250	26,380
Cash and cash equivalents at end of period	35,428	27,462

Notes

1. Presentation of condensed consolidated financial statements

The condensed consolidated financial statements are set out on pages 24 to 45 and the reviewed sections of Risk and capital management on pages 6 to 23. The directors have prepared these on a going concern basis after assessing the principal risks, forecasts, projections and other relevant evidence over the twelve months from the date they are approved and in accordance with IAS 34 'Interim Financial Reporting', as adopted by the UK and as issued by the International Accounting Standards Board (IASB), and the Disclosure Guidance and Transparency Rules sourcebook of the UK's Financial Conduct Authority. They should be read in conjunction with NatWest Markets Plc's 2021 Annual Report and Accounts.

2. Accounting policies

NWM Group's principal accounting policies are as set out on pages 110 to 114 of NatWest Markets Plc's 2021 Annual Report and Accounts. Amendments to IFRS effective from 1 January 2022 had no material effect on the condensed consolidated financial statements.

Critical accounting policies and key sources of estimation uncertainty

The judgements and assumptions that are considered to be the most important to the portrayal of NWM 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 noted on pages 113 and 114 of NatWest Markets Plc's 2021 Annual Report and Accounts.

Information used for significant estimates

Key financial estimates are based on management's latest five-year revenue and cost forecasts. Measurement of deferred tax and expected credit losses are highly sensitive to reasonably possible changes in those anticipated conditions. Changes in judgments and assumptions could result in a material adjustment to those estimates in future reporting periods. (Refer to the Summary Risk Factors on page 47 which should be read in conjunction with the Risk Factors included in the NatWest Markets Plc's 2021 Annual Report and Accounts).

3. Operating expenses

	Half year ended	
	30 June 2022 £m	30 June 2021 £m
Wages, salaries and other staff costs	121	180
Temporary and contract costs	2	7
Social security costs	22	18
Bonus awards	57	36
Pension costs	11	11
- defined benefit schemes	3	4
- defined contribution schemes	8	7
Staff costs	213	252
Premises and equipment	25	37
Other administrative expenses (1)	291	181
Depreciation and amortisation	11	10
Administrative expenses	327	228
Operating expenses	540	480

(1) Includes recharges from other NatWest Group entities, mainly NWB Plc which provides majority of shared services (including technology) and operational processes.

Notes

4. Segmental analysis

The business is organised into the following reportable segments:

- NatWest Markets; and
- Central items & other, which includes corporate functions and other activity not managed in the NatWest Markets segment. In H1 2022 and H1 2021, this substantially comprised of litigation and conduct costs.

Analysis of operating (loss)/profit before tax

	Half year ended 30 June 2022			Half year ended 30 June 2021		
	NatWest Markets	Central items & other	Total	NatWest Markets	Central items & other	Total
	£m	£m	£m	£m	£m	£m
Interest receivable	243	-	243	179	-	179
Interest payable	(214)	-	(214)	(183)	-	(183)
Net fees and commissions	103	-	103	84	-	84
Other non-interest income	315	(9)	306	210	6	216
Total income	447	(9)	438	290	6	296
Depreciation and amortisation	(11)	-	(11)	(10)	-	(10)
Other operating expenses	(500)	(29)	(529)	(532)	62	(470)
Impairment (losses)/releases	(5)	-	(5)	16	-	16
Operating (loss)/profit	(69)	(38)	(107)	(236)	68	(168)

	Half year ended 30 June 2022			Half year ended 30 June 2021		
	NatWest Markets	Central items & other	Total	NatWest Markets	Central items & other	Total
	£m	£m	£m	£m	£m	£m
Total revenue (1)	738	(9)	729	535	6	541

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

	Half year ended	
	30 June 2022	30 June 2021
	£m	£m
Analysis of net fees and commissions - NatWest Markets		
Fees and commissions receivable		
- Lending and financing	46	34
- Brokerage	21	25
- Underwriting fees	64	77
- Other	49	10
Total	180	146
Fees and commissions payable	(77)	(62)
Net fees and commissions	103	84

	As at 30 June 2022			As at 31 December 2021		
	NatWest Markets	Central items & other	Total	NatWest Markets	Central items & other	Total
	£m	£m	£m	£m	£m	£m
Total assets and liabilities						
Assets	227,132	1	227,133	203,010	1	203,011
Liabilities	220,005	13	220,018	195,560	(1)	195,559

Notes

5. Tax

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

	Half year ended	
	30 June 2022	30 June 2021
	£m	£m
Loss before tax	(107)	(168)
Expected tax credit	20	32
Losses and temporary differences in period where no deferred tax asset recognised	(12)	(5)
Foreign profits taxed at other rates	2	(1)
Items not allowed for tax:		
- losses on disposals and write-downs	(1)	-
- UK bank levy	(1)	(2)
- regulatory and legal actions	(2)	8
- other disallowable items	-	(3)
Non-taxable items	1	-
Losses brought forward and utilised	-	6
Decrease in the carrying value of deferred tax assets in respect of UK losses	(21)	(5)
Banking surcharge	6	19
Tax on paid-in equity	7	7
UK tax rate change impact	22	(17)
Adjustments in respect of prior periods	-	10
Actual tax credit	21	49

At 30 June 2022, NWM Group has recognised a deferred tax asset of £46 million (31 December 2021 - £48 million) and a deferred tax liability of £234 million (31 December 2021 - £374 million). These amounts include deferred tax assets recognised in respect of trading losses of £74 million (31 December 2021 - £104 million). NWM Group has considered the carrying value of these assets as at 30 June 2022 and concluded that they are recoverable.

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

Notes

6. Financial instruments - classification

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

	MFVTPL £m	FVOCI £m	Amortised cost £m	Other assets £m	Total £m
Assets					
Cash and balances at central banks			17,361		17,361
Trading assets	65,375				65,375
Derivatives (1)	109,138				109,138
Settlement balances			10,289		10,289
Loans to banks - amortised cost			1,452		1,452
Loans to customers - amortised cost			8,950		8,950
Amounts due from holding company and fellow subsidiaries	2,108	-	661	116	2,885
Other financial assets	48	6,186	4,618		10,852
Other assets				831	831
30 June 2022	176,669	6,186	43,331	947	227,133
31 December 2021					
Cash and balances at central banks			16,645		16,645
Trading assets	59,101				59,101
Derivatives (1)	105,550				105,550
Settlement balances			2,139		2,139
Loans to banks - amortised cost			962		962
Loans to customers - amortised cost			7,471		7,471
Amounts due from holding company and fellow subsidiaries	649	-	731	99	1,479
Other financial assets	80	5,590	3,116		8,786
Other assets				878	878
31 December 2021	165,380	5,590	31,064	977	203,011
Liabilities					
	Held-for- trading £m	DFV £m	Amortised cost £m	Other liabilities £m	Total £m
Bank deposits			2,353		2,353
Customer deposits			4,268		4,268
Amounts due to holding company and fellow subsidiaries	508	-	5,061	185	5,754
Settlement balances			9,540		9,540
Trading liabilities	74,051				74,051
Derivatives (1)	102,111				102,111
Other financial liabilities		2,119	18,956		21,075
Other liabilities			58	808	866
30 June 2022	176,670	2,119	40,236	993	220,018
31 December 2021					
Bank deposits			1,808		1,808
Customer deposits			2,268		2,268
Amounts due to holding company and fellow subsidiaries	348	-	5,607	171	6,126
Settlement balances			2,068		2,068
Trading liabilities	64,482				64,482
Derivatives (1)	98,497				98,497
Other financial liabilities		2,374	16,881		19,255
Other liabilities			57	998	1,055
31 December 2021	163,327	2,374	28,689	1,169	195,559

(1) Includes net hedging derivative assets of £79 million (31 December 2021 - £132 million) and net hedging derivative liabilities of £143 million (31 December 2021 - £119 million).

Notes

6. Financial instruments - classification continued

Amounts due from/to holding company and fellow subsidiaries are as below:

	30 June 2022			31 December 2021		
	Holding company £m	Fellow subsidiaries £m	Total £m	Holding company £m	Fellow subsidiaries £m	Total £m
Assets						
Trading assets	-	2,108	2,108	252	397	649
Loans to banks - amortised cost	-	515	515	-	612	612
Loans to customers - amortised cost	126	20	146	113	6	119
Other assets	-	116	116	-	99	99
Amounts due from holding company and fellow subsidiaries	126	2,759	2,885	365	1,114	1,479
Derivatives ⁽¹⁾	615	463	1,078	407	529	936
Liabilities						
Bank deposits - amortised cost	-	373	373	-	120	120
Customer deposits - amortised cost	-	67	67	-	155	155
Trading liabilities	444	64	508	-	348	348
Settlement balances	-	56	56	-	-	-
Other financial liabilities - subordinated liabilities	1,497	-	1,497	1,464	-	1,464
MREL instruments issued to NatWest Group plc	3,062	-	3,062	3,858	-	3,858
Other liabilities	-	191	191	-	181	181
Amounts due to holding company and fellow subsidiaries	5,003	751	5,754	5,322	804	6,126
Derivatives ⁽¹⁾	213	429	642	658	339	997

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

Notes

6. Financial instruments - valuation

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

Fair value hierarchy

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

	30 June 2022				31 December 2021			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets								
Trading assets								
Loans	-	40,493	642	41,135	-	33,425	721	34,146
Securities	20,032	4,206	2	24,240	19,563	5,371	21	24,955
Derivatives	-	108,102	1,036	109,138	-	104,484	1,066	105,550
Amount due from holding company and fellow subsidiaries	-	2,108	-	2,108	-	649	-	649
Other financial assets								
Loans	-	-	150	150	-	19	118	137
Securities	5,041	1,003	40	6,084	4,507	988	38	5,533
Total financial assets held at fair value	25,073	155,912	1,870	182,855	24,070	144,936	1,964	170,970
As a % of total fair value assets	14%	85%	1%		14%	85%	1%	
Liabilities								
Amount due to holding company and fellow subsidiaries	-	508	-	508	-	348	-	348
Trading liabilities								
Deposits	-	48,486	1	48,487	-	38,542	2	38,544
Debt securities in issue	-	801	2	803	-	974	-	974
Short positions	22,022	2,738	1	24,761	20,508	4,455	1	24,964
Derivatives	-	101,349	762	102,111	-	97,883	614	98,497
Other financial liabilities								
Deposits	-	542	-	542	-	568	-	568
Debt securities in issue	-	1,237	-	1,237	-	1,103	-	1,103
Subordinated liabilities	-	340	-	340	-	703	-	703
Total financial liabilities held at fair value	22,022	156,001	766	178,789	20,508	144,576	617	165,701
As a % of total fair value liabilities	12%	88%	0%		12%	88%	0%	

- (1) Level 1 - Instruments valued using unadjusted quoted prices in active and liquid markets, for identical financial instruments. Examples include government bonds, listed equity shares and certain exchange-traded derivatives.
Level 2 - Instruments valued using valuation techniques that have observable inputs. Observable inputs are those that are readily available with limited adjustments required. Examples include most government agency securities, investment-grade corporate bonds, certain mortgage products - including CLOs, most bank loans, repos and reverse repos, state and municipal obligations, most notes issued, certain money market securities, loan commitments and most OTC derivatives.
Level 3 - Instruments valued using a valuation technique where at least one input which could have a significant effect on the instrument's valuation, is not based on observable market data. Examples include non-derivative instruments which trade infrequently, certain syndicated and commercial mortgage loans, private equity, and derivatives with unobservable model inputs.
- (2) Transfers between levels are deemed to have occurred at the beginning of the quarter in which the instruments were transferred.
- (3) For an analysis of debt securities held at mandatorily fair value through profit or loss by issuer as well as ratings and derivatives, by type and contract, refer to Risk and capital management - Credit risk.

Notes

6. Financial instruments – valuation continued

Valuation adjustments

When valuing financial instruments in the trading book, adjustments are made to mid-market valuations to cover bid-offer spread, funding and credit risk. These adjustments are presented in the table below. For further information refer to the descriptions of valuation adjustments within 'Financial instruments – valuation' on page 140 of the NatWest Markets Plc 2021 Annual Report and Accounts.

	30 June 2022 £m	31 December 2021 £m
Funding – FVA	29	59
Credit – CVA	364	389
Bid – Offer	96	81
Product and deal specific	128	120
	617	649

- Valuation reserves comprising credit valuation adjustments (CVA), funding valuation adjustment (FVA), bid-offer and product and deal specific reserves, decreased to £617 million at 30 June 2022 (31 December 2021 – £649 million).
- The decreases in CVA and FVA were driven by a reduction in underlying derivative exposures, primarily due to increases in interest rates and trade exit activity, partially offset by the net impact of credit spreads widening and specific counterparty activity. The increase in bid-offer was driven by an increase in risk and wider bid-offer spreads.

Level 3 sensitivities

The table below shows the high and low range of fair value of the level 3 assets and liabilities.

	30 June 2022			31 December 2021		
	Level 3 £m	Favourable £m	Unfavourable £m	Level 3 £m	Favourable £m	Unfavourable £m
Assets						
Trading assets						
Loans	642	10	(10)	721	10	(10)
Securities	2	-	-	21	-	-
Derivatives	1,036	60	(70)	1,066	90	(110)
Other financial assets						
Loans	150	-	-	118	10	(10)
Securities	40	-	-	38	-	-
Total financial assets held at fair value	1,870	70	(80)	1,964	110	(130)
Liabilities						
Trading liabilities						
Deposits	1	-	-	2	-	-
Debt securities in issue	2	-	-	-	-	-
Short positions	1	-	-	1	-	-
Derivatives	762	30	(30)	614	30	(30)
Total financial liabilities held at fair value	766	30	(30)	617	30	(30)

Alternative assumptions

Reasonably plausible alternative assumptions of unobservable inputs are determined based on a specified target level of certainty of 90%. Alternative assumptions are determined with reference to all available evidence including consideration of the following: quality of independent pricing information considering consistency between different sources, variation over time, perceived tradability or otherwise of available quotes; consensus service dispersion ranges; volume of trading activity and market bias (e.g. one-way inventory); day 1 profit or loss arising on new trades; number and nature of market participants; market conditions; modelling consistency in the market; size and nature of risk; length of holding of position; and market intelligence.

Notes

6. Financial instruments - valuation continued

Movement in level 3 assets and liabilities

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

	Half year ended 30 June 2022				Half year ended 30 June 2021			
	Trading	Other	Total	Total	Trading	Other	Total	Total
	assets (1)	financial assets (2)	assets	liabilities	assets (1)	financial assets (2)	assets	liabilities
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January	1,808	156	1,964	617	1,629	91	1,720	955
Amount recorded in the income statement (3)	33	(10)	23	148	(191)	3	(188)	(124)
Amount recorded in the statement of comprehensive income	-	(22)	(22)	-	-	6	6	-
Level 3 transfers in	143	-	143	31	42	428	470	15
Level 3 transfers out	(101)	(1)	(102)	(36)	(68)	-	(68)	(116)
Purchases/originations	352	67	419	158	169	8	177	114
Settlements/other decreases	(28)	-	(28)	(15)	(36)	(4)	(40)	(15)
Sales	(530)	-	(530)	(139)	(158)	(1)	(159)	(132)
Foreign exchange and other	3	-	3	2	(1)	(1)	(2)	(2)
At 30 June	1,680	190	1,870	766	1,386	530	1,916	695
Amounts recorded in the income statement in respect of balances held at period end - unrealised	33	(10)	23	148	(191)	3	(188)	(124)

(1) Trading assets comprise assets held at fair value in trading portfolios.

(2) Other financial assets comprise fair value through other comprehensive income, designated as at fair value through profit or loss and other fair value through profit or loss.

(3) Net losses of £115 million on trading assets and liabilities (30 June 2021 - £67 million net losses) were recorded in income from trading activities. Net losses on other instruments of £10 million (30 June 2021 - gain £3 million) were recorded in other operating income and interest income as appropriate.

Notes

6. Financial instruments - valuation continued

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

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

	Items where fair value approximates carrying value £bn	Carrying value £bn	Fair value £bn	Fair value hierarchy level	
				Level 2 £bn	Level 3 £bn
30 June 2022					
Financial assets					
Cash and balances at central banks	17.4				
Settlement balances	10.3				
Loans to banks	0.3	1.2	1.2	0.5	0.7
Loans to customers		9.0	9.0	0.5	8.5
Amounts due from holding company and fellow subsidiaries	0.1	0.6	0.6	-	0.6
Other financial assets - securities		4.6	4.6	-	4.6
31 December 2021					
Financial assets					
Cash and balances at central banks	16.6				
Settlement balances	2.1				
Loans to banks	0.1	0.9	0.9	0.4	0.5
Loans to customers		7.5	7.5	0.4	7.1
Amounts due from holding company and fellow subsidiaries		0.7	0.7	-	0.7
Other financial assets - securities		3.1	3.1	-	3.1
30 June 2022					
Financial liabilities					
Bank deposits	0.3	2.1	2.1	-	2.1
Customer deposits	0.2	4.1	4.1	0.1	4.0
Amounts due to holding company and fellow subsidiaries	0.2	4.9	4.9	4.5	0.4
Settlement balances	9.5				
Other financial liabilities					
Debt securities in issue		18.7	18.7	14.5	4.2
Subordinated liabilities		0.3	0.3	0.3	-
31 December 2021					
Financial liabilities					
Bank deposits		1.8	1.8	-	1.8
Customer deposits		2.2	2.2	-	2.2
Amounts due to holding company and fellow subsidiaries		5.6	5.7	5.4	0.3
Settlement balances	2.1				
Other financial liabilities					
Debt securities in issue		16.6	16.8	13.9	2.9
Subordinated liabilities		0.3	0.4	0.4	-

Short-term financial instruments

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

Loans to banks and customers

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

Debt securities and subordinated liabilities

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

Bank and customer deposits

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

Notes

7. Trading assets and liabilities

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

	30 June 2022 £m	31 December 2021 £m
Assets		
Loans		
Reverse repos	25,893	20,742
Collateral given	14,150	11,990
Other loans	1,092	1,414
Total loans	41,135	34,146
Securities		
Central and local government		
- UK	7,075	6,919
- US	3,840	3,329
- other	9,364	10,929
Financial institutions and corporate	3,961	3,778
Total securities	24,240	24,955
Total	65,375	59,101
Liabilities		
Deposits		
Repos	29,406	19,389
Collateral received	17,995	17,619
Other deposits	1,086	1,536
Total deposits	48,487	38,544
Debt securities in issue	803	974
Short positions	24,761	24,964
Total	74,051	64,482

Notes

8. Loan impairment provisions

Portfolio summary

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

	30 June 2022 £m	31 December 2021 £m
Loans - amortised cost and fair value through other comprehensive income (FVOCI)		
Stage 1	10,014	8,301
Stage 2	254	147
Stage 3	62	99
<i>Of which: individual</i>	45	91
<i>Of which: collective</i>	17	8
Inter-Group (1)	660	731
Total	10,990	9,278
ECL provisions		
Stage 1	12	6
Stage 2	3	3
Stage 3	37	75
<i>Of which: individual</i>	27	68
<i>Of which: collective</i>	10	7
Inter-Group	-	-
Total	52	84
ECL provisions coverage (2)		
Stage 1 (%)	0.12	0.07
Stage 2 (%)	1.18	2.04
Stage 3 (%)	59.68	75.76
Inter-Group (%)	-	-
Total	0.50	0.98
	Half year ended	
	30 June 2022 £m	30 June 2021 £m
Impairment losses		
ECL charge/(release) (3)		
Stage 1	2	(8)
Stage 2	4	(5)
Stage 3	(1)	(3)
<i>Of which: individual</i>	-	1
<i>Of which: collective</i>	(1)	(4)
Third party	5	(16)
Inter-Group	-	-
Total	5	(16)
Amounts written off	43	40

(1) NWM Group's intercompany assets were classified in Stage 1. The ECL for these loans was £0.3 million (31 December 2021 – £0.2 million).

(2) ECL provisions coverage is calculated as ECL provisions divided by loans – amortised cost and FVOCI. It is calculated on third party loans and total ECL provisions.

(3) The table shows gross loans only and excludes amounts that are outside the scope of the ECL framework. For further details, refer to Financial instruments within the scope of the IFRS 9 ECL framework on page 76 of the NatWest Markets Plc 2021 Annual Report and Accounts. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totalling £17.4 billion (31 December 2021 – £16.6 billion) and debt securities of £10.7 billion (31 December 2021 – £8.4 billion).

Notes

9. Provisions for liabilities and charges

	Litigation and other regulatory	Other ⁽¹⁾	Total
	£m	£m	£m
At 1 January 2022	262	80	342
Currency translation and other movements	18	3	21
Charge to income statement	3	-	3
Release to income statement	(5)	(1)	(6)
Provisions utilised	(69)	(15)	(84)
At 30 June 2022	209	67	276

(1) Materially comprises provisions relating to restructuring costs.

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

10. Dividends

Interim ordinary dividends totalling £250 million were paid to NWM Plc's parent company NatWest Group plc during H1 2022 (H1 2021 – £750 million).

11. Contingent liabilities, commitments and guarantees

	30 June 2022	31 December 2021
	£m	£m
Contingent liabilities and commitments		
Guarantees and assets pledged as collateral security	589	595
Other contingent liabilities	107	110
Standby facilities, credit lines and other commitments	13,560	11,245
	14,256	11,950

Commitments and contingent obligations are subject to NWM Plc's normal credit approval processes. The amounts shown do not, and are not intended to, provide any indication of NWM Group's expectation of future losses.

Risk sharing arrangements

NWM Plc and NWM N.V. have limited risk-sharing arrangements in place to facilitate the smooth provision of services to NatWest Markets' customers. The arrangements include:

- The provision of a funded guarantee of up to £1.0 billion by NWM Plc to NWM N.V. that limits NWM N.V.'s exposure to large individual customer credits to 10% of NWM N.V.'s capital. Funding is provided by NWM Plc deposits placed with NWM N.V. of not less than the guaranteed amount. At 30 June 2022 the deposits amounted to £0.8 billion and the guarantee fees in the period were £2.1 million.
- The provision of a funded and an unfunded guarantee by NWM Plc in respect of NWM N.V.'s legacy portfolio. At 30 June 2022 the exposure at default covered by the guarantees was approximately £0.2 billion (of which £34 million was cash collateralised). Fees of £0.7 million in relation to the guarantees were recognised in the period.

Indemnity deed

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

Notes

12. Litigation and regulatory matters

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

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

In many of these Matters, it is not possible to determine whether any loss is probable, or to estimate reliably the amount of any loss, either as a direct consequence of the relevant proceedings and regulatory matters or as a result of adverse impacts or restrictions on NWM 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. NWM 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 NWM Group may pursue an approach that in some instances leads to a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, or in order to take account of the risks inherent in defending claims or regulatory matters, even for those Matters for which NWM Group believes it has credible defences and should prevail on the merits. The uncertainties inherent in all such Matters affect the amount and timing of any potential outflows for both Matters with respect to which provisions have been established and other contingent liabilities.

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

The future outflow of resources in respect of any Matter may ultimately prove to be substantially greater than or less than the aggregate provision that NWM Group has recognised. Where (and as far as) liability cannot be reasonably estimated, no provision has been recognised. NWM Group expects that in future periods, additional provisions, settlement amounts and customer redress payments will be necessary, in amounts that are expected to be substantial in some instances. Please refer to Note 9 for information on material provisions.

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

For a discussion of certain risks associated with NWM Group's litigation and regulatory matters, see the Risk factor relating to legal, regulatory and governmental actions and investigations set out on page 198 of the NatWest Markets Plc 2021 Annual Report and Accounts.

Litigation

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

NatWest Markets Securities Inc. (NWMSI) and certain affiliates continue to defend RMBS-related claims in the US in which the plaintiff, the Federal Deposit Insurance Corporation (FDIC), alleges that certain disclosures made in connection with the relevant offerings of RMBS contained materially false or misleading statements and/or omissions regarding the underwriting standards pursuant to which the mortgage loans underlying the RMBS were issued.

London Interbank Offered Rate (LIBOR) and other rates litigation

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

Notes

12. Litigation and regulatory matters continued

Several class actions relating to USD LIBOR, as well as more than two dozen non-class actions concerning USD LIBOR, are part of a co-ordinated proceeding in the SDNY. In December 2021, the United States Court of Appeals for the Second Circuit (US Court of Appeals) affirmed the SDNY's prior decision that plaintiffs who purchased LIBOR-based instruments from third parties (as opposed to the defendants) lack antitrust standing to pursue such claims. In addition, the appellate court, reversing a December 2016 decision of the SDNY, held that plaintiffs in these cases have adequately asserted the court's personal jurisdiction over NWM Plc and other non-US banks, including with respect to antitrust class action claims on behalf of over-the-counter plaintiffs and exchange-based purchaser plaintiffs. In February 2022, the US Court of Appeals, on similar grounds, reversed the SDNY's prior dismissal of a fraud class action on behalf of lender plaintiffs. The appellate court remanded these matters to the SDNY for further proceedings in light of its rulings. In March 2020, NWM Group defendants finalised a settlement resolving the class action on behalf of bondholder plaintiffs (those who held bonds issued by non-defendants on which interest was paid from 2007 to 2010 at a rate expressly tied to USD LIBOR). The amount of the settlement (which was covered by an existing provision) has been paid into escrow pending court approval of the settlement.

The non-class claims filed in the SDNY include claims that the FDIC is asserting on behalf of certain failed US banks. In July 2017, the FDIC, on behalf of 39 of those failed US banks, commenced substantially similar claims against NWM Plc, NatWest Group plc and others in the High Court of Justice of England and Wales. The action alleges collusion with regard to the setting of USD LIBOR and that the defendants breached UK and European competition law, as well as asserting common law claims of fraud under US law. The defendant banks consented to a request by the FDIC for discontinuance of the claim in respect of 20 failed US banks, leaving 19 failed US banks as claimants. The UK proceedings are at the disclosure stage but have been stayed until 31 July 2022.

In addition, there are two class actions relating to JPY LIBOR and Euroyen TIBOR. The first class action, which relates to Euroyen TIBOR futures contracts, was dismissed by the SDNY in September 2020 on jurisdictional and other grounds, and the plaintiffs have commenced an appeal to the US Court of Appeals. The second class action, which relates to other derivatives allegedly tied to JPY LIBOR and Euroyen TIBOR, was dismissed by the SDNY in relation to NWM Plc and other NWM Group companies in September 2021. That dismissal may be the subject of a future appeal.

In addition to the above, five other class action complaints were filed against NWM Group defendants in the SDNY, each relating to a different reference rate. In February 2017, the SDNY dismissed the case relating to Euribor for lack of personal jurisdiction and in August 2019, the SDNY dismissed the case relating to Pound Sterling for various reasons. Plaintiffs' appeals in those two cases remain pending.

In May 2022, NatWest Group companies and the plaintiffs in the class action relating to the Singapore Interbank Offered Rate and Singapore Swap Offer Rate ('SIBOR / SOR') finalised a settlement resolving that case. In April 2022, NatWest Group companies and the plaintiffs in the class action relating to the Australian Bank Bill Swap Reference Rate finalised a settlement resolving that case. In June 2021, NWM Plc and the plaintiffs in the Swiss Franc LIBOR class action finalised a settlement resolving that case. The amounts of the three settlements have been paid into escrow pending final court approval of the settlements.

NWM Plc is also named as a defendant in a motion to certify a class action relating to LIBOR in the Tel Aviv District Court in Israel. NWM Plc filed a motion for cancellation of service outside the jurisdiction, which was granted in July 2020. The claimants appealed that decision and in November 2020 the appeal was refused and the claim dismissed by the Appellate Court. The claim could in future be recommenced depending on the outcome of an appeal to Israel's Supreme Court in respect of dismissal of the substantive case against banks that had a presence in Israel.

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

FX litigation

NWM Plc, NWMSI and/or NatWest Group plc are defendants in several cases relating to NWM Plc's foreign exchange (FX) business. In 2015, NWM Plc paid US\$255 million to settle the consolidated antitrust class action filed in the SDNY on behalf of persons who entered into over-the-counter FX transactions with defendants or who traded FX instruments on exchanges. In 2018, some members of the settlement class who opted out of that class action settlement filed their own non-class complaint in the SDNY asserting antitrust claims against NWM Plc, NWMSI and other banks. Those opt-out claims are proceeding in discovery.

Notes

12. Litigation and regulatory matters continued

In April 2019, some of the same claimants in the opt-out case described above, as well as others, served proceedings (which are ongoing) in the High Court of Justice of England and Wales, asserting competition claims against NWM Plc and several other banks. The claim was transferred from the High Court of Justice of England and Wales in December 2021 and registered in the UK Competition Appeal Tribunal (CAT) in January 2022.

An FX-related class action, on behalf of 'consumers and end-user businesses', is proceeding in the SDNY against NWM Plc and others. In March 2022, the SDNY denied the plaintiffs' motion for class certification. Plaintiffs are seeking to appeal the decision.

In May 2019, a cartel class action was filed in the Federal Court of Australia against NWM Plc and four other banks on behalf of persons who bought or sold currency through FX spots or forwards between 1 January 2008 and 15 October 2013 with a total transaction value exceeding AUD \$0.5 million. The claimant has alleged that the banks, including NWM Plc, contravened Australian competition law by sharing information, coordinating conduct, widening spreads and manipulating FX rates for certain currency pairs during this period. NatWest Group plc and NWMSI have been named in the action as 'other cartel participants', but are not respondents. The claim was served in June 2019 and, after a number of interlocutory pleading disputes, NWM Plc filed its defence in March 2022.

In July and December 2019, two separate applications seeking opt-out collective proceedings orders were filed in the CAT against NatWest Group plc, NWM Plc and other banks. Both applications were brought on behalf of persons who, between 18 December 2007 and 31 January 2013, entered into a relevant FX spot or outright forward transaction in the EEA with a relevant financial institution or on an electronic communications network. A hearing to determine class certification took place in July 2021. In March 2022, the CAT declined to certify as collective proceedings either of the applications, ruling that the opt-out basis on which they were brought was inappropriate. The CAT granted each applicant three months to revise their application for certification on an opt-in basis, if they wished to proceed. Neither applicant did so. The applicants have served judicial review proceedings, which are currently stayed. Separately, the applicants have applied for permission to appeal the CAT's judgment.

Two motions to certify FX-related class actions were filed in the Tel Aviv District Court in Israel in September and October 2018, and were subsequently consolidated into one motion. The consolidated motion to certify, which names The Royal Bank of Scotland plc (now NWM Plc) and several other banks as defendants, was served on NWM Plc in May 2020. NWM Plc has filed a motion challenging the permission to serve the consolidated motion outside the Israeli jurisdiction, which remains pending.

In December 2021, a claim was issued in the Netherlands against NatWest Group plc, NWM Plc and NWM N.V. by Stichting FX Claims, seeking a declaration from the court that anti-competitive FX market conduct described in decisions of the European Commission (EC) of 16 May 2019 is unlawful, along with unspecified damages. The claimant has requested the court's permission to amend its claim to also refer to a December 2021 decision by the EC, which also described anti-competitive FX market conduct.

Certain other foreign exchange transaction related claims have been or may be threatened. NWM Group cannot predict whether all or any of these claims will be pursued.

Government securities antitrust litigation

NWMSI and certain other US broker-dealers are defendants in a consolidated antitrust class action in the SDNY on behalf of persons who transacted in US Treasury securities or derivatives based on such instruments, including futures and options. The plaintiffs allege that defendants rigged the US Treasury securities auction bidding process to deflate prices at which they bought such securities and colluded to increase the prices at which they sold such securities to plaintiffs. In March 2022, the SDNY dismissed the operative complaint, without leave to re-plead. The dismissal is subject to appeal.

Class action antitrust claims commenced in March 2019 are pending in the SDNY against NWM Plc, NWMSI and other banks in respect of Euro-denominated bonds issued by European central banks (EGBs). The complaint alleges a conspiracy among dealers of EGBs to widen the bid-ask spreads they quoted to customers, thereby increasing the prices customers paid for the EGBs or decreasing the prices at which customers sold the bonds. The class consists of those who purchased or sold EGBs in the US between 2007 and 2012. In March 2022, the SDNY dismissed the claims against NWM Plc and NWMSI in the operative complaint on the ground that the complaint's conspiracy allegations are insufficient. The plaintiffs have indicated that they intend to file an amended complaint.

Swaps antitrust litigation

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

Notes

12. Litigation and regulatory matters continued

In June 2021, a class action antitrust complaint was filed against a number of credit default swap dealers in New Mexico federal court on behalf of persons who, from 2005 onwards, settled credit default swaps in the United States by reference to the ISDA credit default swap auction protocol. The complaint alleges that the defendants conspired to manipulate that benchmark through various means in violation of the antitrust laws and the Commodity Exchange Act. The defendants include several NatWest Group companies, including NatWest Group plc. Defendants are seeking dismissal.

Odd lot corporate bond trading antitrust litigation

In October 2021, the SDNY granted defendants' motion to dismiss the class action antitrust complaint alleging that, from August 2006 onwards various securities dealers, including NWMSI, conspired artificially to widen spreads for odd lots of corporate bonds bought or sold in the United States secondary market and to boycott electronic trading platforms that would have allegedly promoted pricing competition in the market for such bonds. Plaintiffs have commenced an appeal of the dismissal.

Spoofing litigation

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

Madoff

NWM N.V. was named as a defendant in two actions filed by the trustee for the bankruptcy estates of Bernard L. Madoff and Bernard L. Madoff Investment Securities LLC, in bankruptcy court in New York, which together seek to clawback more than US\$298 million that NWM N.V. allegedly received from certain Madoff feeder funds and certain swap counterparties. The claims were previously dismissed, but as a result of an August 2021 decision by the US Court of Appeals, they will now proceed in the bankruptcy court, where they have now been consolidated into one action, subject to NWM N.V.'s legal and factual defences. In May 2022, NWM N.V. filed a motion to dismiss the amended complaint in the consolidated action.

EUA trading litigation

NWM Plc was a named defendant in civil proceedings before the High Court of Justice of England and Wales brought in 2015 by ten companies (all in liquidation) (the 'Liquidated Companies') and their respective liquidators (together, 'the Claimants'). The Liquidated Companies previously traded in European Union Allowances (EUAs) in 2009 and were alleged to be VAT defaulting traders within (or otherwise connected to) EUA supply chains of which NWM Plc was a party. In March 2020, the court held that NWM Plc and Mercuria Energy Europe Trading Limited ('Mercuria') were liable for dishonestly assisting and knowingly being a party to fraudulent trading during a seven business day period in 2009.

In October 2020, the High Court quantified total damages against NWM Plc and Mercuria at £45 million plus interest and costs, and permitted the defendants to appeal to the Court of Appeal. In May 2021 the Court of Appeal set aside the High Court's judgment and ordered that a retrial take place before a different High Court judge. The claimants have been denied permission by the Supreme Court to appeal that decision and the retrial will therefore proceed on a date to be scheduled. Mercuria has also been denied permission by the Supreme Court to appeal the High Court's finding that NWM Plc and Mercuria were both vicariously liable.

US Anti-Terrorism Act litigation

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

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

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

Notes

12. Litigation and regulatory matters continued

Securities underwriting litigation

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

1MDB litigation

A claim for a material sum was issued, but not served, in Malaysia in 2021 by 1MDB against Coutts & Co Ltd for alleged losses in connection with the 1MDB fund. Coutts & Co Ltd is a company registered in Switzerland and is in wind-down following the announced sale of its business assets in 2015.

Regulatory matters (including investigations)

NWM 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. NWM Group companies have engaged, and will continue to engage, in discussions with relevant governmental and regulatory authorities, including in the UK, the US, the EU and elsewhere, on an ongoing and regular basis, and in response to informal and formal inquiries or investigations, regarding operational, systems and control evaluations and issues including those related to compliance with applicable laws and regulations, including consumer protection, investment advice, business conduct, competition/anti-trust, VAT recovery, anti-bribery, anti-money laundering and sanctions regimes.

NWM Group companies have been providing information regarding a variety of matters, including, for example, offering of securities, the setting of benchmark rates and related derivatives trading, conduct in the foreign exchange market, product mis-selling and various issues relating to the issuance, underwriting, and sales and trading of fixed-income securities, including structured products and government securities, some of which have resulted, and others of which may result, in investigations or proceedings.

Any matters discussed or identified during such discussions and inquiries may result in, among other things, further inquiry or investigation, other action being taken by governmental and regulatory authorities, increased costs being incurred by NWM Group, remediation of systems and controls, public or private censure, restriction of NWM 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 NWM Group, its business, authorisations and licences, reputation, results of operations or the price of securities issued by it, or lead to material additional provisions being taken.

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

US investigations relating to fixed-income securities

In December 2021, NWM Plc pled guilty in the United States District Court for the District of Connecticut to one count of wire fraud and one count of securities fraud in connection with historical spoofing conduct by former employees in US Treasuries markets between January 2008 and May 2014 and, separately, during approximately three months in 2018. The 2018 trading occurred during the term of a non-prosecution agreement (NPA) between NWMSI and the United States Attorney's Office for the District of Connecticut (USAO CT), under which non-prosecution was conditioned on NWMSI and affiliated companies not engaging in criminal conduct during the term of the NPA. The relevant trading in 2018 was conducted by two NWM traders in Singapore and breached that NPA. The plea agreement reached with the US Department of Justice and the USAO CT resolves both the spoofing conduct and the breach of the NPA.

As required by the resolution and sentence imposed by the court, NWM Plc is subject to a three-year period of probation and has paid a US\$25.2 million criminal fine, approximately US\$2.8 million in criminal forfeiture and approximately US\$6.8 million in restitution out of existing provisions. The plea agreement also imposes an independent corporate monitor. In addition, NWM Plc has committed to compliance programme reviews and improvements and agreed to reporting and co-operation obligations.

Other material adverse collateral consequences may occur as a result of this matter, as further described in the Risk factor relating to legal, regulatory and governmental actions and investigations set out on page 198 of the NatWest Markets Plc 2021 Annual Report & Accounts.

Notes

13. 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 NWM Group. NWM Group's 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.

Bank of England facilities

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

Other related parties

- In their roles as providers of finance, NWM Group companies provide development and other types of capital support to businesses. In some instances, the investment may extend to ownership or control over 20% or more of the voting rights of the investee company. However, these investments are not considered to give rise to transactions of a materiality requiring disclosure under IAS 24.
- NWM Group is recharged from other NatWest Group entities, mainly NWB Plc which provides the majority of shared services (including technology) and operational processes.

NWM N.V. loan purchases via NWM Plc

In H1 2022 NWM N.V. continued purchasing loans from market participants via NWM Plc onto the banking book as part of a larger initiative to increase the size and diversity of its banking book portfolio. As at 30 June 2022, the balance of these loans purchased from market participants with assistance from NWM Plc amounted to €230 million (31 December 2021 - €24 million).

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

14. Post balance sheet events

On 28 July 2022, the NWM Plc Board approved an interim dividend of £180 million, or £0.45 per share, to be declared and payable to NatWest Group plc on 29 July 2022. There has been no adjustment to the 30 June 2022 condensed consolidated financial statements. For regulatory reporting purposes, a £180 million foreseeable dividend deduction has been applied to the H1 2022 regulatory capital position.

Other than as disclosed there have been no other significant events between 30 June 2022 and the date of approval of these accounts which would require a change to or additional disclosure in the condensed consolidated financial statements.

15. Date of approval

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

Independent review report to NatWest Markets Plc

Conclusion

We have been engaged by NatWest Markets plc ("the Group") to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2022 which comprises 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 15, and the Risk and capital management disclosures for those identified as within the scope of our review (together "the condensed consolidated financial statements"). We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Basis for conclusion

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

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

Conclusions relating to Going Concern

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

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

Responsibilities of the directors

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

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

Auditor's responsibilities for the review of the financial information

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

Use of our report

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

Ernst & Young LLP

London, United Kingdom
28 July 2022

NatWest Markets Plc Summary Risk Factors

Summary of Principal Risks and Uncertainties

Set out below is a summary of the principal risks and uncertainties for the remaining six months of the financial year which could adversely affect NWM 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 179 to 200 of the NatWest Markets Plc 2021 Annual Report and Accounts and pages 16 to 49 of the NWM Plc Registration Document dated 16 March 2022 (as supplemented and amended from time to time). Any of the risks identified may have a material adverse effect on NWM Group's business, operations, financial condition or prospects.

Economic and political risk

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

Strategic risk

- NWM Group has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy (including the NWM Refocusing and NatWest Group's recent creation of its Commercial & Institutional franchise, of which NWM Group forms part) and may continue to be subject to significant structural and other change. There is no certainty that the intended benefits of any such change for NWM Group will be realised within the timeline or in the manner currently contemplated, or that NWM Group will meet its targets and expectations as a result of such changes.
- Trends relating to the COVID-19 pandemic may adversely affect NWM Group's strategy and impair its ability to meet its targets and strategic objectives.

Financial resilience risk

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

NatWest Markets Plc Summary Risk Factors

Summary of Principal Risks and Uncertainties continued

Climate and sustainability-related risks

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

Operational and IT resilience risk

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

Legal, regulatory and conduct risk

- NWM Group's businesses are subject to substantial regulation and oversight, which are constantly evolving and may adversely affect NWM Group.
- NWM Group is exposed to the risk of various litigation matters, regulatory and governmental actions and investigations as well as remedial undertakings, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on NWM Group.
- NWM Group may not effectively manage the transition of LIBOR and other IBOR rates to alternative risk-free rates.
- Changes in tax legislation or failure to generate future taxable profits may impact the recoverability of certain deferred tax assets recognised by NWM 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', as adopted by the UK and as issued by the International Accounting Standards Board (IASB);
- 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

Frank Dangeard
Chairman

Robert Begbie
Chief Executive Officer

28 July 2022

Board of directors

Chairman

Frank Dangeard

Executive directors

Robert Begbie

Non-executive directors

Anne Simpson
Sarah Wilkinson
Tamsin Rowe
Vivek Ahuja

Non-IFRS financial measures

NWM 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 operating expenses shows litigation and conduct costs on a separate line on pages 3 and 4. These amounts are included within staff costs and other administrative expenses in the statutory analysis. Other operating expenses excludes litigation and conduct costs which are more volatile and may distort comparisons with prior periods.
- Funded assets defined as total assets less derivative assets. This measure allows review of balance sheet trends exclusive of the volatility associated with derivative fair values.
- Management view of income by business including shared revenue and before asset disposals/strategic risk reduction and own credit adjustments. This measure is used to show underlying income generation in NatWest Markets excluding the impact of disposal losses and own credit adjustments.
- Revenue share refers to income generated by NatWest Markets products from customers that have their primary relationship with other NatWest Group subsidiaries, a proportion of which is shared between NatWest Markets and those subsidiaries.
- Asset disposals/strategic risk reduction includes the costs of exiting positions, which includes changes in carrying value to align to the expected exit valuation, and the impact of risk reduction transactions entered into as part of the optimisation of the entity's capital usage, following the strategic announcements of 14 February 2020.
- Own credit adjustments are applied to positions where it is believed that the counterparties would consider NWM Group's creditworthiness when pricing trades. The fair value of certain issued debt securities, including structured notes, is adjusted to reflect the changes in own credit spreads and the resulting gain or loss recognised in income.

Non-IFRS financial measures

Operating expenses

	Half year ended					
	30 June 2022			30 June 2021		
	Litigation and conduct costs	Other operating expenses	Statutory operating expenses	Litigation and conduct costs	Other operating expenses	Statutory operating expenses
	£m	£m	£m	£m	£m	£m
Operating expenses						
Staff costs	2	211	213	-	252	252
Premises and equipment	-	25	25	-	37	37
Other administrative expenses	18	273	291	(68)	249	181
Depreciation and amortisation	-	11	11	-	10	10
Total	20	520	540	(68)	548	480

	Quarter ended					
	30 June 2022			30 June 2021		
	Litigation and conduct costs	Other operating expenses	Statutory operating expenses	Litigation and conduct costs	Other operating expenses	Statutory operating expenses
	£m	£m	£m	£m	£m	£m
Operating expenses						
Staff costs	2	78	80	-	133	133
Premises and equipment	-	1	1	-	24	24
Other administrative expenses	10	151	161	8	122	130
Depreciation and amortisation	-	7	7	-	4	4
Total	12	237	249	8	283	291

	Quarter ended					
	31 March 2022			30 June 2021		
	Litigation and conduct costs	Other operating expenses	Statutory operating expenses	Litigation and conduct costs	Other operating expenses	Statutory operating expenses
	£m	£m	£m	£m	£m	£m
Operating expenses						
Staff costs	-	133	133	-	118	118
Premises and equipment	-	24	24	-	18	18
Other administrative expenses	8	122	130	(81)	148	67
Depreciation and amortisation	-	4	4	-	5	5
Total	8	283	291	(81)	289	208

	Quarter ended					
	31 March 2022			30 June 2021		
	Litigation and conduct costs	Other operating expenses	Statutory operating expenses	Litigation and conduct costs	Other operating expenses	Statutory operating expenses
	£m	£m	£m	£m	£m	£m
Operating expenses						
Staff costs	-	133	133	-	118	118
Premises and equipment	-	24	24	-	18	18
Other administrative expenses	8	122	130	(81)	148	67
Depreciation and amortisation	-	4	4	-	5	5
Total	8	283	291	(81)	289	208

Additional information

Presentation of information

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

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

Statutory accounts

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

MAR – Inside Information

This announcement contains information that qualified or may have qualified as inside information for NatWest Markets Plc, for the purposes of Article 7 of the Market Abuse Regulation (EU) 596/2014 (MAR) as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 for NatWest Markets Plc. This announcement is made by Paul Pybus, Head of Debt Investor Relations for NatWest Markets Plc.

Contact

Paul Pybus

Investor Relations

+44 (0) 7769 161183

Forward-looking statements

This document contains forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995, such as statements that include, without limitation, the words 'expect', 'estimate', 'project', 'anticipate', 'commit', 'believe', 'should', 'intend', 'will', 'plan', 'could', 'probability', 'risk', 'Value-at-Risk (VaR)', 'target', 'goal', 'objective', 'may', 'endeavour', 'outlook', 'optimistic', 'prospects' and similar expressions or variations on these expressions. These statements concern or may affect future matters, such as NWM Group's future economic results, business plans and strategies. In particular, this document may include forward-looking statements relating to NWM Group in respect of, but not limited to: its economic and political risks, its regulatory capital position and related requirements, its financial position, profitability and financial performance (including financial, capital, cost savings and operational targets), NWM Group's strategic and structural change and implementation of NatWest Group's purpose-led strategy, its ESG and climate related targets, its access to adequate sources of liquidity and funding, increasing competition from new incumbents and disruptive technologies, the impact of the COVID-19 pandemic, its exposure to third party risks, its ongoing compliance with the UK ring-fencing regime and ensuring operational continuity in resolution, its impairment losses and credit exposures under certain specified scenarios, substantial regulation and oversight, ongoing legal, regulatory and governmental actions and investigations, the transition of LIBOR and IBOR rates to alternative risk free rates and NWM Group's exposure to operational risk, conduct risk, cyber, data and IT risk, financial crime risk, key person risk and credit rating risk. Forward-looking statements are subject to a number of risks and uncertainties that might cause actual results and performance to differ materially from any expected future results or performance expressed or implied by the forward-looking statements. Factors that could cause or contribute to differences in current expectations include, but are not limited to, the outcome of legal, regulatory and governmental actions and investigations, the level and extent of future impairments and write-downs, legislative, political, fiscal and regulatory developments, accounting standards, competitive conditions, technological developments, interest and exchange rate fluctuations, general economic and political conditions, the impact of climate related risks and the transitioning to a net zero economy and the impact of the COVID-19 pandemic. These and other factors, risks and uncertainties that may impact any forward-looking statement or NWM Group's actual results are discussed in NWM Plc's 2021 Annual Report and Accounts (ARA), NWM Plc's Registration Document, NWM Plc's Interim Results for Q1 2022 and H1 2022 and other public filings. The forward-looking statements contained in this document speak only as of the date of this document and NWM Group 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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