NatWest Markets N.V.
Interim Results 2021

Becoming a more sustainable business

We continued to support customers with innovative financial solutions while delivering on plans to become a more sustainable part of NatWest Group. We have further developed our capability to offer better integrated solutions, particularly in foreign exchange and funds financing, targeted to the investment management community. We continued to develop our ESG and climate strategy, evolving our offering and expertise at pace and in line with the market's exponential growth. We are committed to putting sustainability at the heart of everything we do.

In H1 2021, further client relationships were successfully moved from NatWest Markets Plc to NatWest Markets N.V. (NWM N.V.) following the UK's exit from the EU. This ensured that customers could continue to receive valuable financing and risk management services. We also successfully implemented business design changes agreed with the regulator and migrated the Euro Rates Trading and FX Derivatives Trading desks.

Robust business continuity plans ensured that NatWest Markets N.V. was able to continue to support customers safely and protect employees throughout the year, with the vast majority of the workforce in Europe continuing to work remotely throughout the first half of 2021. In the various regions where we operate, a small proportion of employees have returned to the workplace, primarily those in regulated roles and key oversight functions.

On 16 July 2021, NatWest Markets N.V. announced the appointment of Cornelis Visscher as interim Chief Executive Officer and Chairman of the Managing Board of NatWest Markets N.V. in addition to his existing responsibilities as Chief Financial Officer at NatWest Markets N.V.. This is with effect from 1 September 2021 in advance of Harm Bots leaving on 30 September 2021.

Outlook[(1)] We retain the Outlook as set out in NWM N.V. 2020 Annual Report and Accounts.

Note:
(1) The targets, expectations and trends discussed in this section represents NWM N.V.'s management's current expectations and are subject to change, including as a result of the factors described in the "Risk Factors" section on pages 112 to 128 of NWM N.V. 2020 Annual Report and Accounts, as well as the Summary risk factors set out on pages 28 to 29 of this announcement. These statements constitute forward-looking statements. Refer to Forward-looking statements in this announcement.

Financial review

Profit attributable to controlling interests was €40 million compared with a loss of €41 million in H1 2020. This increase was mainly due to total income of €111 million compared with €52 million in H1 2020. Operating expenses increased by €30 million to €77 million. Furthermore, there was an impairment release of €4 million compared with a €39 million loss in H1 2020.

Net interest income was a net expense of €4 million compared with an income of €7 million in H1 2020.

Non-interest income increased by €70 million to €115 million compared with €45 million in H1 2020. Net fees and commissions of €129 million (H1 2020 - €78 million) primarily related to transfer pricing income from NatWest Markets Plc of €76 million (H1 2020 - €53 million), syndicate fee income of €52 million (H1 2020 - €12 million). The increase in transfer pricing income is mainly driven by the increase in underlying costs impacting the cost-plus remuneration. Income from trading activities was a loss of €2 million compared with a €30 million loss in H1 2020, partially due to legacy items in H1 2020. Other operating income was a loss of €12 million compared with a loss of €3 million in H1 2020, primarily reflecting the loss on disposal of Loans to customers of €12 million in H1 2021.

Operating expenses were €77 million in H1 2021 compared with €47 million in H1 2020. Staff costs increased by €10 million to €41 million in H1 2021, mainly due to restructuring expenses of €10 million as a result of changes to the European operating model, which will result in a reduction in the number of coverage roles and the closure of the Madrid branch. Premises and equipment costs decreased by €2 million to €3 million. Administrative expenses increased by €22 million to €31 million, compared with €9 million in H1 2020, primarily driven by a one-off legacy item in H1 2020.

Impairments were a release of €4 million in H1 2021, compared with a charge of €39 million in H1 2020, mainly driven by releases on individual IFRS 9 Stage 1 and Stage 2 exposures and credit improvements in the period. The €4 million release was mainly driven by a reduction of an individual significant exposure.

Tax charge for H1 2021 was a €2 million credit compared with a €7 million charge in H1 2020, mainly due to the release of a legacy tax provision in H1 2021.

Balance sheet

Total assets and total liabilities both increased by €1.2 billion to €22.9 billion and €20.7 billion respectively as at 30 June 2021, compared with 31 December 2020. During H1 2021 €1.3 billion of assets and €1.6 billion of liabilities were transferred from NWM Plc to NWM N.V.. These transfers which covered both FSMA scheme and non-FSMA scheme portfolios, included trading assets of €0.4 billion, derivative assets of €0.9 billion, trading liabilities of €0.4 billion and derivative liabilities of €1.2 billion.

- Cash and balances at central banks decreased by €0.8 billion to €3.6 billion at 30 June 2021, with the full balance placed with the Dutch Central Bank.
- Trading assets decreased to €4.3 billion (31 December 2020 - €4.4 billion), driven by decreases in loans to customers and debt securities of €0.8 billion and €0.1 billion respectively, partially offset by an increase in loans to banks of €0.8 billion.
- Derivative assets increased to €7.2 billion (31 December 2020 - €6.9 billion) and derivative liabilities decreased to €8.6 billion (31 December 2020 - €9.3 billion), primarily reflecting movements in interest rate derivatives.
- Settlement balance assets and liabilities were €2.9 billion (31 December 2020 - €0.4 billion) and €2.8 billion (31 December 2020 - €0.9 billion) respectively due to higher trading volume around June 2021 month end compared to December 2020 month end.
- Loans to banks - amortised cost decreased by €0.1 billion to €0.1 billion at 30 June 2021 mainly due to the decrease in cash placements held for liquidity buffer purposes.
- Loans to customers - amortised cost decreased by €0.1 billion to €0.9 billion, reflecting client flow activity.
- Amounts due from holding company and fellow subsidiaries decreased to €2.7 billion compared with €3.5 billion at 31 December 2020, mainly due to decreases in loans subject to reverse repurchase agreements and deals pending settlement.
- Other financial assets increased by €0.2 billion, to €1.1 billion, reflecting an increase in treasury bills and debt securities measured at fair value through other comprehensive income of €0.1 billion and €0.1 billion respectively.
- Customer deposits decreased from €1.3 billion to €0.7 billion, reflecting reduced funding requirement.
- Amounts due to holding companies and fellow subsidiaries increased by €0.8 billion to €4.4 billion, mainly driven by an increase in deposits subject to repurchase agreements.
- Trading liabilities increased to €1.9 billion (31 December 2020 - €1.5 billion) reflecting increases in customer accounts and short positions of €0.4 billion and €0.1 billion respectively, partially offset by a decrease in deposits by banks of €0.1 billion.
- Other financial liabilities decreased to €1.6 billion, compared with €2.2 billion driven by decreases in debt securities in issue and Evergreen deposits of €0.4 billion and €0.2 billion respectively.
- Equity attributable to controlling interests increased by €15 million to €2.2 billion, mainly driven by the profit for the period of €40 million, currency translation adjustments of €3 million. This was partially offset by dividends paid on AT1 capital securities of €7 million, fair value through other comprehensive income movements of €2 million and own credit adjustments of €19 million due to tightening of credit spreads.

Financial review

Capital and liquidity

Capital ratios and risk-weighted assets (RWAs) on the CRR transitional basis are set out below.

	30 June 2021	31 December 2020
Capital ratios	**%**	%
CET1	**24.8**	30.6
Tier 1	**28.5**	35.3
Total	**31.5**	39.0
Risk-weighted assets	**€m**	€m
Credit risk	**4,701**	4,047
Market risk	**1,295**	703
Operational risk	**620**	605
Total RWAs	**6,616**	5,355
Liquidity	**%**	%
Liquidity coverage ratio (LCR)	**226**	356

Key points

- The increase in market risk RWAs is primarily due to an increase in Credit Valuation Adjustment (CVA) RWAs. This increase was caused by the loss of CRR equivalence for intra group exposures due to Brexit. This is also the prime driver for the decrease in the CET1 ratio.
- The increase in credit risk RWAs is partly due to a regulatory add-on.
- There were no capital actions during H1 2021.
- The decrease in the LCR ratio was driven by reduced funding requirement over H1 2021.

Financial statements

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

	Half year ended	
	30 June 2021 €m	30 June 2020 €m
Interest receivable	22	26
Interest payable	(26)	(19)
Net interest income	(4)	7
Fees and commissions receivable	143	103
Fees and commissions payable	(14)	(25)
Income from trading activities	(2)	(30)
Other operating income	(12)	(3)
Non-interest income	115	45
Total income	111	52
Staff costs	(41)	(31)
Premises and equipment	(3)	(5)
Other administrative expenses	(31)	(9)
Depreciation and amortisation	(2)	(2)
Operating expenses	(77)	(47)
Profit before impairment releases/(losses)	34	5
Impairment releases/(losses)	4	(39)
Operating profit/(loss) before tax	38	(34)
Tax credit/(charge)	2	(7)
Profit/(loss) for the period	40	(41)
Attributable to:		
Ordinary shareholders	33	(48)
Paid-in equity holders (1)	7	7
	40	(41)

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

	Half year ended	
	30 June 2021 €m	30 June 2020 €m
Profit/(loss) for the period	40	(41)
Items that do not qualify for reclassification		
(Loss)/profit on fair value of credit in financial liabilities designated at fair value through profit or loss due to own credit risk	(19)	41
Fair value through other comprehensive income (FVOCI) financial assets	(1)	1
	(20)	42
Items that qualify for reclassification		
FVOCI financial assets	(1)	(5)
Currency translation	3	(6)
	2	(11)
Other comprehensive (loss)/income after tax	(18)	31
Total comprehensive income/(loss) for the period attributable to controlling interests	22	(10)
Attributable to:		
Ordinary shareholders	15	(17)
Paid-in equity holders (1)	7	7
	22	(10)

Note:
(1) In the NWM N.V. 2020 Annual Report and Accounts this was referred to as AT1 capital securities.

Financial statements

Condensed consolidated balance sheet as at 30 June 2021 (unaudited)

	30 June 2021 €m	31 December 2020 €m
Assets		
Cash and balances at central banks	**3,634**	4,452
Trading assets	**4,300**	4,380
Derivatives	**7,241**	6,935
Settlement balances	**2,869**	358
Loans to banks - amortised cost	**125**	190
Loans to customers - amortised cost	**851**	946
Amounts due from holding companies and fellow subsidiaries	**2,723**	3,540
Other financial assets	**1,126**	896
Other assets	**43**	47
Total assets	**22,912**	21,744
Liabilities		
Bank deposits	**19**	52
Customer deposits	**730**	1,258
Amounts due to holding companies and fellow subsidiaries	**4,387**	3,551
Settlement balances	**2,804**	943
Trading liabilities	**1,896**	1,512
Derivatives	**8,556**	9,309
Other financial liabilities	**1,618**	2,200
Subordinated liabilities	**652**	655
Other liabilities	**62**	91
Total liabilities	**20,724**	19,571
Equity attributable to controlling interests	**2,188**	2,173
Total liabilities and equity	**22,912**	21,744

Financial statements

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

	Half year ended	
	30 June 2021 €m	30 June 2020 €m
Share capital and premium account - at beginning and end of period (1)	**1,700**	1,700
Paid-in equity - at beginning and end of period	**250**	250
FVOCI reserve - at beginning of period		
At beginning of period	**7**	4
Unrealised losses	**(1)**	(5)
Realised (losses)/gains	**(1)**	1
At end of period	**5**	-
Foreign exchange reserve		
At beginning of period	**9**	12
Retranslation of net assets	**11**	(6)
Foreign currency losses on hedges of net assets	**(8)**	-
At end of period	**12**	6
Retained earnings		
At beginning of period	**207**	242
Profit/(loss) attributable to ordinary shareholders and other equity owners	**40**	(41)
Paid-in equity dividends paid	**(7)**	(7)
Changes in fair value of credit in financial liabilities designated at fair value through profit or loss	**(19)**	41
At end of period	**221**	235
Total equity at end of period	**2,188**	2,191
Attributable to:		
Ordinary shareholders	**1,938**	1,941
Paid-in equity holders (2)	**250**	250
	2,188	2,191

Notes:
(1) Includes Ordinary share capital of €50,000 (2019 - €50,000).
(2) In the NWM N.V. 2020 Annual Report and Accounts this was referred to as AT1 capital securities.

Financial statements

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

	Half year ended	
	30 June 2021 €m	30 June 2020 €m
Operating activities		
Operating profit /(loss) before tax	**38**	**(34)**
Adjustments for non-cash items	**(16)**	**(13)**
Net cash flows from trading activities	**22**	**(47)**
Changes in operating assets and liabilities	**131**	**2,239**
Net cash flows from operating activities before tax	**153**	**2,192**
Income taxes paid	**(25)**	**(3)**
Net cash flows from operating activities	**128**	**2,189**
Net cash flows from investing activities	**(178)**	**(64)**
Net cash flows from financing activities	**(17)**	**(39)**
Effects of exchange rate changes on cash and cash equivalents	**32**	**48**
Net (decrease)/increase in cash and cash equivalents	**(35)**	**2,134**
Cash and cash equivalents at beginning of period	**7,286**	**5,297**
Cash and cash equivalents at end of period	**7,251**	**7,431**

Notes

1. Basis of preparation

NatWest Markets N.V. condensed consolidated financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting'. They should be read in conjunction with the NatWest Markets N.V. 2020 Annual Report and Accounts which were prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, as adopted by the European Union (EU) (together IFRS).

Going concern

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

2. Accounting policies

NatWest Markets N.V.'s principal accounting policies are as set out on pages 56 to 59 of the NatWest Markets N.V. 2020 Annual Report and Accounts. Changes to accounting policies from 1 January 2021 had no material effect on NatWest Markets N.V.'s accounts.

Critical accounting policies and key sources of estimation uncertainty

The judgements and assumptions that are considered to be the most important to the portrayal of NatWest Markets N.V.'s financial condition are those relating to tax, fair value of financial instruments and loan impairment provisions. These critical accounting policies and judgements relating to tax and fair value are referenced on page 59 of the NatWest Markets N.V. 2020 Annual Report and Accounts. Estimation uncertainty has been affected by the COVID-19 pandemic. Management's consideration of this source of uncertainty is outlined in the relevant sections of NatWest Markets N.V. 2020 Annual Report and Accounts, including the ECL estimate for the period in the Risk and capital management section contained in the NatWest Markets N.V. 2020 Annual Report and Accounts.

Information used for significant estimates

The COVID-19 pandemic has continued to cause significant economic and social disruption. Key financial estimates are based on a range of anticipated future economic conditions described by internally developed scenarios. Measurement of deferred tax is highly sensitive to reasonably possible changes in those anticipated conditions. Other reasonably possible assumptions about the future include a prolonged financial effect of the COVID-19 pandemic on the global economy and economies of the UK and EU countries. Changes in judgements and assumptions could result in a material adjustment to those estimates in the next reporting periods. Refer to NatWest Markets N.V. Risk factors in the 2020 Annual Report and Accounts.

3. Analysis of net fees and commissions

	Half year ended	
	30 June 2021 €m	30 June 2020 €m
Fees and commissions receivable		
- Transfer pricing arrangements (Note 11)	**76**	53
- Underwriting fees	**52**	12
- Lending and financing	**9**	10
- Brokerage	**-**	6
- Other	**6**	22
Total	**143**	103
Fees and commissions payable	**(14)**	(25)
Net fees and commissions	**129**	78

Notes

4. Tax

Future tax rates are expected to be low due to the losses carried forward. The actual tax charge differs from the expected tax credit computed by applying the standard Dutch corporation tax rate of 25% as follows:

	Half year ended	
	30 June 2021 €m	30 June 2020 €m
Profit/(loss) before tax	**38**	(34)
Expected tax (charge)/credit	**(9)**	8
Losses in period where no deferred tax asset recognised	**-**	(8)
Losses brought forward and utilised	**8**	-
Non-taxable items	**-**	(1)
Adjustments in respect to prior years	**3**	(6)
Actual tax credit/(charge)	**2**	(7)

In consideration of the uncertainties as set out in NWM N.V.'s 2020 Annual Report and Accounts no deferred tax assets have been recognised in respect of tax losses and tax credits.

5. Trading assets and liabilities

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

Assets	**30 June 2021 €m**	31 December 2020 €m
Loans		
- Reverse repos	**1,486**	908
- Collateral given	**2,758**	3,417
- Other loans	**53**	-
Total loans	**4,297**	4,325
Securities (1)	**3**	55
Total	**4,300**	4,380
Liabilities		
Deposits		
- Repos	**313**	306
- Collateral received	**1,286**	1,067
- Other deposits	**115**	5
Total deposits	**1,714**	1,378
Short positions	**182**	134
Total	**1,896**	1,512

Note:
(1) Securities are primarily non-domestic in both periods.

Notes

6. 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 2021							31 December 2020		
	Notional									
	GBP €bn	USD €bn	Euro €bn	Other €bn	Total €bn	Assets €m	Liabilities €m	Notional €bn	Assets €m	Liabilities €m
Gross exposure						4,746	6,466		3,967	7,079
IFRS offset						-	-		-	-
Carrying value	536	65	1,326	30	1,957	4,746	6,466	2,274	3,967	7,079
Of which:										
Interest rate (1)										
Interest rate swaps						2,725	4,424		2,233	4,735
Options purchased						455	-		248	-
Options written						-	88		-	118
Total	519	8	1,268	7	1,802	3,180	4,512	2,155	2,481	4,853
Exchange rate										
Spot, forwards and futures						1,244	838		996	1,551
Currency swaps						296	1,069		436	583
Options purchased						26	-		54	-
Options written						-	38		-	86
Total	17	57	58	23	155	1,566	1,945	119	1,486	2,220
Credit	-	-	-	-	-	-	9	-	-	6
Carrying value					1,957	4,746	6,466	2,274	3,967	7,079
Counterparty mark-to-market netting						(2,737)	(2,737)		(2,486)	(2,486)
Cash collateral						(1,214)	(2,665)		(983)	(3,230)
Securities collateral						(225)	(381)		(56)	(942)
Net exposure						570	683		442	421
Banks (2)						20	42		16	29
Other financial institutions (3)						363	150		282	147
Corporate (4)						184	396		140	244
Government (5)						3	95		4	1
Net exposure						570	683		442	421
UK						11	1		15	2
Europe						531	681		386	419
US						-	-		9	-
RoW						28	1		32	-
Net exposure						570	683		442	421

Notes:

(1) The notional amount of interest rate derivatives includes €1,694 billion (31 December 2020 – €2,073 billion) in respect of contracts cleared through central clearing counterparties.

(2) Transactions with certain counterparties with whom NWM N.V. 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 N.V.'s external rating.

(4) Mainly large corporates with whom NWM N.V. 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.

Notes

7. Financial instruments

Financial instruments: classification

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

Assets	MFVTPL €m	FVOCI €m	Amortised cost €m	Other assets €m	Total €m
Cash and balances at central banks			**3,634**		**3,634**
Trading assets	**4,300**				**4,300**
Derivatives	**7,241**				**7,241**
Settlement balances			**2,869**		**2,869**
Loans to banks - amortised cost (1)			**125**		**125**
Loans to customers - amortised cost			**851**		**851**
Amounts due from holding companies and fellow subsidiaries	**2,485**		**211**	**27**	**2,723**
Other financial assets	**1**	**1,067**	**58**		**1,126**
Other assets				**43**	**43**
30 June 2021	**14,027**	**1,067**	**7,748**	**70**	**22,912**
Cash and balances at central banks			4,452		4,452
Trading assets	4,380				4,380
Derivatives	6,935				6,935
Settlement balances			358		358
Loans to banks - amortised cost (1)			190		190
Loans to customers - amortised cost			946		946
Amounts due from holding companies and fellow subsidiaries	3,103		436	1	3,540
Other financial assets	1	850	45		896
Other assets				47	47
31 December 2020	14,419	850	6,427	48	21,744

Liabilities	Held-for-trading €m	DFV €m	Amortised cost €m	Other liabilities €m	Total €m
Bank deposits (2)			**19**		**19**
Customer deposits			**730**		**730**
Amounts due to holding companies and fellow subsidiaries	**3,115**		**1,265**	**7**	**4,387**
Settlement balances			**2,804**		**2,804**
Trading liabilities	**1,896**				**1,896**
Derivatives	**8,556**				**8,556**
Other financial liabilities		**737**	**881**		**1,618**
Subordinated liabilities		**404**	**248**		**652**
Other liabilities (3)			**10**	**52**	**62**
30 June 2021	**13,567**	**1,141**	**5,957**	**59**	**20,724**
Bank deposits (2)			52		52
Customer deposits			1,258		1,258
Amounts due to holding companies and fellow subsidiaries	2,404		1,141	6	3,551
Settlement balances			943		943
Trading liabilities	1,512				1,512
Derivatives	9,309				9,309
Other financial liabilities		886	1,314		2,200
Subordinated liabilities		414	241		655
Other liabilities (3)			12	79	91
31 December 2020	13,225	1,300	4,961	85	19,571

Notes:

(1) Includes items in the course of collection from other banks of €16 million (31 December 2020 - €2 million).

(2) Includes items in the course of transmission to other banks of €15 million (31 December 2020 – nil).

(3) Includes lease liabilities of €9 million (31 December 2020 - €10 million).

Notes

7. Financial instruments continued

NWM N.V.'s financial assets and liabilities include:

	30 June 2021 €m	31 December 2020 €m
Reverse repos		
Trading assets	**1,486**	908
Repos		
Trading liabilities	**313**	306

Reverse repo and repo movements primarily relate to government securities.

NWM N.V.'s financial assets and liabilities includes amounts due from/to holding companies and fellow subsidiaries as below:

	30 June 2021			31 December 2020		
	Holding companies €m	Fellow subsidiaries €m	Total €m	Holding companies €m	Fellow subsidiaries €m	Total €m
Assets						
Trading assets	**2,485**	**-**	**2,485**	3,103	-	3,103
Loans to banks - amortised cost	**66**	**16**	**82**	281	31	312
Loans to customers - amortised cost	**129**	**-**	**129**	124	-	124
Other assets	**27**	**-**	**27**	-	1	1
Amounts due from holding companies and fellow subsidiaries	**2,707**	**16**	**2,723**	3,508	32	3,540
Derivatives (1)	**2,495**	**-**	**2,495**	2,968	-	2,968
Liabilities						
Trading liabilities	**3,022**	**93**	**3,115**	2,404	-	2,404
Bank deposits - amortised cost	**880**	**9**	**889**	973	16	989
Customer deposits - amortised cost	**-**	**224**	**224**	-	-	-
Other financial liabilities - subordinated liabilities	**150**	**-**	**150**	150	-	150
Other liabilities	**2**	**7**	**9**	6	2	8
Amounts due to holding companies and fellow subsidiaries	**4,054**	**333**	**4,387**	3,533	18	3,551
Derivatives (1)	**2,090**	**-**	**2,090**	2,230	-	2,230

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

Interest rate benchmark reform

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

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

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

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

Notes

7. Financial instruments continued

Financial instruments: fair valuation hierarchy

Disclosures relating to the control environment, valuation techniques and related aspects pertaining to financial instruments measured at fair value are included in NWM N.V.'s 2020 Annual Report and Accounts. Valuation and input methodologies at 30 June 2021 are consistent with those described in Note 10 to NWM N.V.'s 2020 Annual Report and Accounts.

The following tables show financial instruments carried at fair value on NWM N.V.'s balance sheet by valuation hierarchy - levels 1, 2 and 3.

	30 June 2021				31 December 2020			
	Level 1 €m	**Level 2 €m**	**Level 3 €m**	**Total €m**	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Assets								
Trading assets								
Loans	**-**	**4,278**	**19**	**4,297**	-	4,325	-	4,325
Securities	**-**	**-**	**3**	**3**	52	-	3	55
Derivatives	**-**	**7,123**	**118**	**7,241**	-	6,805	130	6,935
Amounts due from holding companies and								-
fellow subsidiaries	**-**	**2,485**	**-**	**2,485**	-	3,103	-	3,103
Other financial assets								
Loans	**-**	**-**	**30**	**30**	-	-	-	-
Securities	**608**	**430**	**-**	**1,038**	378	473	-	851
Total financial assets held at fair value	**608**	**14,316**	**170**	**15,094**	430	14,706	133	15,269
Liabilities								
Amounts due to holding companies and								
fellow subsidiaries	**-**	**3,115**	**-**	**3,115**	-	2,404	-	2,404
Trading liabilities								-
Deposits	**-**	**1,714**	**-**	**1,714**	-	1,378	-	1,378
Short positions	**-**	**182**	**-**	**182**	-	134	-	134
Derivatives	**-**	**8,493**	**63**	**8,556**	-	9,250	59	9,309
Other financial liabilities - deposits	**-**	**737**	**-**	**737**	-	886	-	886
Subordinated liabilities	**-**	**404**	**-**	**404**	-	414	-	414
Total financial liabilities held at fair value	**-**	**14,645**	**63**	**14,708**	-	14,466	59	14,525

Notes:

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

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

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

Financial instruments: sensitivity analysis

	30 June 2021			31 December 2020		
Assets	**Level 3 €m**	**Favourable €m**	**Unfavourable €m**	Level 3 €m	Favourable €m	Unfavourable €m
Trading assets						
Loans	**19**	**-**	**-**	-	-	-
Securities	**3**	**-**	**-**	3	-	-
Derivatives	**118**	**10**	**(10)**	130	10	(10)
Other financial assets - Loans	**30**	**-**	**-**	-	-	-
Total financial assets held at fair value	**170**	**10**	**(10)**	133	10	(10)
Liabilities						
Derivatives	**63**	**-**	**-**	59	-	-
Total financial liabilities held at fair value	**63**	**-**	**-**	59	-	-

Notes
7. Financial instruments continued
Movement in Level 3 portfolios

	Half year ended 30 June 2021				Half year ended 30 June 2020			
	Trading assets (1)	**Other financial assets (2)**	**Total assets**	**Total liabilities**	Trading assets (1)	Other financial assets (2)	Total assets	Total liabilities
	€m	**€m**	**€m**	**€m**	€m	€m	€m	€m
At 1 January	**133**	**-**	**133**	**59**	219	-	219	64
Amount recorded in the income statement (3)	**(31)**	**-**	**(31)**	**(6)**	(24)	-	(24)	9
Level 3 transfers in	**-**	**35**	**35**	**-**	-	174	174	-
Level 3 transfers out	**(7)**	**-**	**(7)**	**(3)**	(1)	-	(1)	(1)
Purchases	**46**	**-**	**46**	**13**	72	-	72	14
Settlements	**(4)**	**(5)**	**(9)**	**3**	(57)	-	(57)	(9)
Sales	**(1)**	**-**	**(1)**	**(3)**	(5)	-	(5)	(3)
Foreign exchange and other adjustments	**4**	**-**	**4**	**-**	(8)	-	(8)	-
At 30 June	**140**	**30**	**170**	**63**	196	174	370	74
Amounts recorded in the income statement in respect of balances held at year end - unrealised	**(31)**	**-**	**(31)**	**(6)**	(24)	-	(24)	9

Notes:
(1) Trading assets comprise assets held at fair value in trading portfolios.
(2) Other financial assets comprise fair value through other comprehensive income, designated as at fair value through profit or loss and other fair value through profit or loss. Movement in the period primarily reflects increase in loan positions classified as HTC&S under IFRS 9 and fair valued through other comprehensive income.
(3) There were €25 million net losses on trading assets and liabilities (30 June 2020 – €33 million) recorded in income from trading activities.

Fair value of financial instruments measured at amortised cost

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

	Items where fair value approximates carrying value	Carrying value	Fair value	Fair value hierarchy level	
30 June 2021				**Level 2**	**Level 3**
	€m	**€m**	**€m**	**€m**	**€m**
Financial assets					
Cash and balances at central banks	**3,634**				
Settlement balances	**2,869**				
Loans to banks	**16**	**109**	**109**	**67**	**42**
Loans to customers		**851**	**842**	**-**	**842**
Amounts due from holding companies and fellow subsidiaries		**211**	**211**	**-**	**211**
Other financial assets		**58**	**58**	**-**	**58**
Financial liabilities					
Bank deposits	**19**				
Customer deposits	**3**	**727**	**727**	**-**	**727**
Amounts due to holding companies and fellow subsidiaries	**24**	**1,241**	**1,248**	**157**	**1,091**
Settlement balances	**2,804**				
Other financial liabilities		**881**	**881**	**407**	**474**
Subordinated liabilities		**248**	**354**	**354**	**-**
31 December 2020					
Financial assets					
Cash and balances at central banks	4,452				
Settlement balances	358				
Loans to banks	2	188	188	59	129
Loans to customers		946	929	-	929
Amounts due from holding companies and fellow subsidiaries		436	436	-	436
Other financial assets		45	45	-	45
Financial liabilities					
Bank deposits	2	50	50	-	50
Customer deposits	2	1,256	1,256	-	1,256
Amounts due to holding companies and fellow subsidiaries	29	1,112	1,112	150	962
Settlement balances	943				
Other financial liabilities		1,314	1,314	949	365
Subordinated liabilities		241	351	351	-

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

Notes

8. Loan impairment provisions

Economic loss drivers

Introduction

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

Economic scenarios

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

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

The range of anticipated future economic conditions was defined by a set of four internally developed scenarios and their respective probabilities. In addition to the base case, they comprised upside, downside and extreme downside scenarios. The scenarios primarily reflect a range of outcomes for the path of COVID-19 as well as recovery, and the associated effects on labour and asset markets.

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

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

The main macroeconomic variables for each of the four scenarios used for expected credit loss (ECL) modelling are set out in the table below. The compound annual growth rate (CAGR) for GDP is shown. It also shows the five-year average for unemployment and the European Central Bank main refinancing rate.

Notes

8. Loan impairment provisions continued

Economic loss drivers

Main macroeconomic variables

	30 June 2021				31 December 2020			
	Upside	Base case	Downside	Extreme downside	Upside	Base case	Downside	Extreme downside
Five-year summary	%	%	%	%	%	%	%	%
Eurozone								
GDP - CAGR	3.3	2.9	1.9	0.6	3.4	2.7	2.4	1.2
Unemployment - average	7.8	8.3	9.4	10.5	8.1	8.7	10.6	11.8
European Central Bank								
- main refinancing rate - average	0.2	0.1	-	-	0.1	-	-	-
Probability weight	35.0	40.0	20.0	5.0	20.0	40.0	30.0	10.0

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

Annual figures

Eurozone - GDP - annual growth	Upside %	Base case %	Downside %	Extreme downside %
2021	8.0	3.8	0.8	(2.0)
2022	4.2	4.4	1.3	(6.0)
2023	2.0	3.0	4.0	6.2
2024	1.7	2.5	2.6	4.1
2025	1.6	1.9	1.8	1.9

Eurozone - unemployment rate - annual average	Upside %	Base case %	Downside %	Extreme downside %
2021	8.6	9.3	9.5	9.5
2022	8.1	9.1	10.6	12.0
2023	7.7	8.4	9.9	11.6
2024	7.4	7.8	8.9	10.1
2025	7.3	7.4	8.3	9.1

European Central Bank - main refinancing rate - annual average	Upside %	Base case %	Downside %	Extreme downside %
2021	-	-	-	-
2022	-	-	-	-
2023	0.2	-	-	-
2024	0.3	0.1	-	-
2025	0.5	0.2	-	-

Probability weightings of scenarios

NWM N.V. Group's approach to IFRS 9 multiple economic scenarios (MES) involves selecting a suitable set of discrete scenarios to characterise the distribution of risks in the economic outlook and assigning appropriate probability weights. The scale of the economic impact of COVID-19 and the range of recovery paths necessitates a change of approach to assigning probability weights from that used in recent updates. Prior to 2020, GDP paths for NWM N.V. Group's scenarios were compared against a set of 1,000 model runs, following which a percentile in the distribution was established that most closely corresponded to the scenario.

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

Notes

8. Loan impairment provisions continued

Economic loss drivers

Use of the scenarios in lending

The lending ECL methodology is based on the concept of credit cycle indices (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.

The four economic scenarios are translated into forward-looking projections of CCIs using a set of econometric models. Subsequently the CCI projections for the individual scenarios are averaged into a single central CCI projection according to the given scenario probabilities. The central CCI projection is then overlaid with an additional mean reversion assumption, i.e. that after one to two years into the forecast horizon the CCIs gradually revert to their long-run average of zero.

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

The rationale for the approach is the long-standing observation that loss rates tend to follow regular cycles. This allows NWM N.V. 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.

Economic uncertainty

Treatment of COVID-19 relief mechanisms

Use of COVID-19 relief mechanisms does not automatically merit identification of significant increase in credit risk (SICR) and trigger a Stage 2 classification in isolation.

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

Model monitoring and enhancement

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

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

Government support

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

Extreme GDP movements

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

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

Notes

8. Loan impairment provisions continued

Governance and post model adjustments

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

- Deferred model calibrations – ECL adjustments where PD model monitoring indicated that actual defaults were below estimated levels but where it was judged that an implied ECL release was not supportable, as these were being judged to have been distorted by government support schemes. As a consequence, any potential ECL release was deferred and retained on the balance sheet.
- Economic uncertainty – ECL adjustments primarily arising from uncertainties associated with MES and credit outcomes as a result of the effect of COVID-19 and the consequences of government interventions. In both cases, management judged that additional ECL was required until further credit performance data became available on the behavioural and loss consequences of COVID-19.
- Other adjustments – ECL adjustments where it was judged that the modelled ECL required to be amended.

PMAs will remain a key focus area of NWM N.V. Group's ongoing ECL adequacy assessment process. A holistic framework has been established including reviewing a range of economic data, external benchmark information and portfolio performance trends, particularly with more observable outcomes from the unwinding of COVID-19 support mechanisms during the remainder of 2021.

Measurement uncertainty and ECL sensitivity analysis

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

The focus of the simulations is on ECL provisioning requirements on performing exposures in Stage 1 and Stage 2. The simulations are run on a stand-alone basis and are independent of each other; the potential ECL impacts reflect the simulated impact as at 30 June 2021. Scenario impacts on a SICR should be considered when evaluating the ECL movements of Stage 1 and Stage 2. In all scenarios the total exposure was the same but exposure by stage varied in each scenario.

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

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

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

NWM N.V. 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.

8. Loan impairment provisions continued

Measurement uncertainty and ECL adequacy

The improvement in the economic outlook and scenarios used in the IFRS 9 MES framework at H1 2021 resulted in a release of modelled ECL. Given continued uncertainty remains due to COVID-19 despite the improved economic outlook, NWM N.V. Group utilised a framework of quantitative and qualitative measures to support the directional change and levels of ECL coverage, including economic data, credit performance insights and problem debt trends. This was particularly important for consideration of post model adjustments.

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

There are a number of key factors that could drive further downside to impairments, through deteriorating economic and credit metrics and increased stage migration as credit risk increases for more customers. A key factor would be a more adverse deterioration in GDP and unemployment in the economies in which NWM N.V. Group operates, but also, among others:

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

Notes

8. Loan impairment provisions continued

Portfolio summary

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

	30 June 2021 €m	31 December 2020 €m
Loans - amortised cost and fair value through other comprehensive income (FVOCI)		
Stage 1	**603**	832
Stage 2	**425**	343
Stage 3	**36**	72
Inter-Group (1)	**211**	436
Total	**1,275**	1,683
ECL provisions		
Stage 1	**1**	1
Stage 2	**35**	41
Stage 3	**36**	69
Total	**72**	111
ECL provisions coverage (2,3)		
Stage 1 (%)	**0.17**	0.12
Stage 2 (%)	**8.24**	11.95
Stage 3 (%)	**100.00**	95.83
Total	**6.77**	6.60
Other financial assets - gross exposure	**4,644**	5,285
Other financial assets - ECL provision	**-**	-

	Half year ended	
	30 June 2021 €m	30 June 2020 €m
Impairment losses		
ECL (release)/charge - third party (4)	**(4)**	38
ECL loss rate - annualised (basis points) - third party (3)	**(75)**	220
Amounts written-off	**38**	1

Notes:
(1) The NWM N.V. Group's intercompany assets were classified in Stage 1. The ECL for these loans was €0.2 million at 30 June 2021 (31 December 2020 – €0.3 million).
(2) ECL provisions coverage is calculated as ECL provisions divided by loans – amortised cost and FVOCI.
(3) ECL provisions coverage and ECL loss rates are calculated on third party loans and related ECL provisions and charge respectively. ECL loss rate is calculated as annualised third party ECL charge divided by loans – amortised cost and FVOCI. The half year ECL charge is annualised by multiplying by two.
(4) Includes nil (30 June 2020 – nil) related to other financial assets and nil (30 June 2020 – €1 million charge) relating to contingent liabilities.
(5) The table shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to page 31 for Financial instruments within the scope of the IFRS 9 ECL framework in the NatWest Markets N.V. 2020 Annual Accounts and Report for further details. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totalling €3.6 billion (31 December 2020 – €4.5 billion) and debt securities of €1.0 billion (31 December 2020 – €0.8 billion).

Notes
8. Loan impairment provisions continued
Sector analysis – COVID-19 impact
The table below shows ECL by stage, for key sectors of the Wholesale portfolio, that continue to be affected by COVID-19.

	Loans - amortised cost & FVOCI				Off-balance sheet		ECL provisions			
	Stage 1	Stage 2	Stage 3	Total	Loan commitments	Contingent liabilities	Stage 1	Stage 2	Stage 3	Total
30 June 2021	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
Wholesale	**603**	**425**	**36**	**1,064**	**6,046**	**493**	**1**	**35**	**36**	**72**
Property	**20**	**32**	**-**	**52**	**357**	**-**	**-**	**1**	**-**	**1**
Financial institutions	**169**	**167**	**-**	**336**	**748**	**474**	**-**	**32**	**-**	**32**
Corporate	**414**	**226**	**36**	**676**	**4,941**	**19**	**1**	**2**	**36**	**39**
Of which:										
Airlines and aerospace	***25***	***-***	***-***	***25***	***98***	***-***	***-***	***-***	***-***	***-***
Automotive	***-***	***-***	***-***	***-***	***550***	***-***	***-***	***-***	***-***	***-***
Land transport and logistics	***50***	***46***	***-***	***96***	***265***	***-***	***-***	***1***	***-***	***1***
Leisure	***24***	***41***	***-***	***65***	***151***	***-***	***-***	***-***	***-***	***-***
Oil and gas	***-***	***-***	***-***	***-***	***300***	***-***	***-***	***-***	***-***	***-***
Retail	***-***	***-***	***-***	***-***	***332***	***-***	***-***	***-***	***-***	***-***
Total	**603**	**425**	**36**	**1,064**	**6,046**	**493**	**1**	**35**	**36**	**72**

31 December 2020										
Wholesale	832	343	72	1,247	6,511	494	1	41	69	111
Property	-	32	-	32	341	-	-	-	-	-
Financial institutions	318	181	-	499	587	474	-	38	-	38
Corporate	514	130	72	716	5,583	20	1	3	69	73
Of which:										
Airlines and aerospace	*-*	*25*	*-*	*25*	*200*	*-*	*-*	*1*	*-*	*1*
Automotive	*-*	*-*	*-*	*-*	*716*	*-*	*-*	*-*	*-*	*-*
Land transport and logistics	*95*	*-*	*1*	*96*	*502*	*-*	*-*	*-*	*-*	*-*
Leisure	*-*	*56*	*-*	*56*	*129*	*-*	*-*	*1*	*-*	*1*
Oil and gas	*12*	*-*	*37*	*49*	*328*	*-*	*-*	*-*	*35*	*35*
Retail	*-*	*-*	*-*	*-*	*380*	*-*	*-*	*-*	*-*	*-*
Total	832	343	72	1,247	6,511	494	1	41	69	111

Notes

8. Loan impairment provisions continued

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 because they relate to balances at central banks. Other points to note:

- Financial assets include treasury liquidity portfolios, comprising balances at central banks and debt securities, as well as loans. Both modelled and non-modelled portfolios are included.
- Stage transfers (for example, exposures moving from Stage 1 to Stage 2) are a key feature of 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.
- 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	
NatWest Markets N.V.	Financial assets €m	ECL €m	Financial assets €m	ECL €m	Financial assets €m	ECL €m	Financial assets €m	ECL €m
At 1 January 2021	**6,311**	**1**	**388**	**41**	**72**	**69**	**6,771**	**111**
Currency translation and other adjustments	**50**	**-**	**3**	**2**	**1**	**2**	**54**	**4**
Transfers from Stage 1 to Stage 2	**(126)**	**-**	**126**	**-**	**-**	**-**	**-**	**-**
Transfers from Stage 2 to Stage 1	**35**	**-**	**(35)**	**-**	**-**	**-**	**-**	**-**
Net re-measurement of ECL on stage transfer		**-**		**2**		**-**		**2**
Changes in risk parameters (model inputs)		**-**		**(9)**		**3**		**(6)**
Other changes in net exposure	**(384)**	**-**	**(43)**	**(1)**	**-**	**-**	**(427)**	**(1)**
Other Profit or loss only items		**(1)**		**2**		**-**		**1**
Income statement (releases)/charges		**(1)**		**(6)**		**3**		**(4)**
Amounts written-off	**-**	**-**	**-**	**-**	**(38)**	**(38)**	**(38)**	**(38)**
At 30 June 2021	**5,886**	**1**	**439**	**35**	**35**	**36**	**6,360**	**72**
Net carrying amount	**5,885**		**404**		**(1)**		**6,288**	
At 1 January 2020	5,619	2	123	2	80	74	5,822	78
2020 movements	(256)	1	1,474	39	(6)	(3)	1,211	37
At 30 June 2020	5,363	3	1,597	41	74	71	7,033	115
Net carrying amount	5,360		1,556		3		6,918	

Key points

- NWM N.V. Group continues to successfully exit the positions designated as non-strategic following the strategic review for the Western European Large Corporates in early 2020.
- Some of these exits were in COVID-19 affected sectors, which contributed positively to the credit portfolio performance in terms of provisions or expected credit loss.
- Government support schemes proved effective and there was clear improvement in performance of the portfolio as some of the COVID-19 measures were lifted and macroeconomic outlook improved.

Notes

9. Contingent liabilities, commitments and guarantees

	30 June 2021 €m	31 December 2020 €m
Guarantees and assets pledged as collateral security	**493**	493
Standby facilities, credit lines and other commitments	**6,046**	6,512
Contingent liabilities and commitments	**6,539**	7,005

Contingent liabilities arise in the normal course of the NWM N.V.'s business; credit exposure is subject to NWM N.V.'s normal controls. The amounts shown do not, and are not intended to, provide any indication of the NWM N.V.'s expectation of future losses.

Included within guarantees and assets pledged as collateral security as at 30 June 2021 is €0.5 billion (31 December 2020 – €0.5 billion) which relates to the NatWest Group's obligations over liabilities held within the Dutch State acquired businesses included in ABN AMRO Bank N.V..

During H1 2021, an amount of €0.3 billion of contingent liabilities and commitments were transferred from NatWest Markets Plc to NWM N.V. in relation to the Western European Corporate Portfolio. An amount of €0.4 billion on contingent liabilities and commitments were transferred from NWM N.V. to NatWest Bank Plc.

Risk-sharing agreements

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 €3 billion by NWM Plc to NWM N.V. that limits certain NWM N.V.'s exposures to large individual customer credits. Funding is provided by NWM Plc deposits placed with NWM N.V. of not less than the guaranteed amount. At 30 June 2021, the deposits amounted to €0.8 billion and the guarantee fees in the period were €3.8 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 2021 the exposure at default covered by the guarantees was approximately €0.3 billion (of which €0.1 billion was cash collateralised). The guarantee fees payable in the period were €4.7 million. Receivable for indemnification recognised in the period were €6.1 million.

Notes

10. Litigation and regulatory matters

NWM N.V. and certain members of NatWest 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 Netherlands, the United Kingdom (UK), the European Union (EU), the United States (US) and other jurisdictions.

NWM N.V. 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 N.V. 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 N.V. 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 N.V. 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 N.V. Group believes it has credible defences and should prevail on the merits. The uncertainties inherent in all such matters affect the amount and timing of any potential outflows for both matters with respect to which provisions have been established and other contingent liabilities.

The future outflow of resources in respect of any matter may ultimately prove to be substantially greater than or less than the aggregate provision that NWM N.V. Group has recognised. Where (and as far as) liability cannot be reasonably estimated, no provision has been recognised.

NatWest Group is involved in ongoing litigation and regulatory matters (including investigations and customer redress programmes) that are not described below but are described on pages 102 to 109 of NatWest Group's H1 Results 2021. NatWest Group expects that in future periods, additional provisions, settlement amounts and customer redress payments will be necessary, in amounts that are expected to be substantial in some instances. While NWM N.V. Group may not be directly involved in such NatWest Group matters, any final adverse outcome of those matters may also have an adverse effect on NWM N.V. Group.

Litigation

Madoff

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

In the primary action, filed in December 2010, the trustee is seeking to clawback a total of US$276.3 million in redemptions that NWM N.V. allegedly received from certain Madoff feeder funds and certain swap counterparties. In March 2020, the bankruptcy court denied the trustee's request for leave to amend its complaint to include additional allegations against NWM N.V., holding that, even with the proposed amendments, the complaint would fail as a matter of law to state a valid claim against NWM N.V. The trustee has commenced an appeal of the bankruptcy court's decision, which has been stayed pending the result of appeals in different proceedings, against different defendants, that involve similar issues. In the second action, filed in October 2011, the trustee seeks to recover an additional US$21.8 million. This action has been stayed pending the result of the appeal in the primary action.

Notes

10. Litigation and regulatory matters continued

Australian Bank Bill Swap Reference Rate (BBSW)

In August 2017, a class action complaint was filed in the United States District Court for the Southern District of New York against certain NatWest Group companies (including NWM N.V.) and a number of other financial institutions. The complaint alleges that the defendants conspired to manipulate the BBSW and asserts claims under the U.S. antitrust laws, the Commodity Exchange Act, RICO (Racketeer Influenced and Corrupt Organizations Act), and the common law. The court dismissed all claims against NatWest Group companies for lack of personal jurisdiction in November 2018, but plaintiffs filed an amended complaint. In February 2020, the court declined to dismiss the amended complaint as against NWM Plc and certain other defendants, but reiterated its prior dismissal of all claims asserted against NWM N.V. The claims against non-dismissed defendants (including NWM Plc) are now proceeding in discovery.

Fondazione Monte dei Paschi di Siena

A claim for €285.9 million was brought by Fondazione Monte dei Paschi di Siena (FMPS) in July 2014 against former directors and 13 syndicate banks, including NWM N.V. and NWM Plc, in connection with an Italian law-governed term facility agreement for €600 million dated 4 June 2011. The claim is a civil action based on a non-contractual liability arising from the alleged breach of the by-laws of FMPS which set a 20 per cent limit for its debt to equity ratio (the Ratio). The lenders are alleged to have aided and abetted the former directors of FMPS to breach the Ratio. It is alleged that as sophisticated financial institutions, each lender should have known FMPS's financial situation, including its debt to equity ratio, and that putting the facility in place would cause it to breach the Ratio. NWM N.V. is defending the claim in the Florence courts.

Anti-Terrorism Act litigation against NWM N.V.

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

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

The first of these actions was filed in the United States District Court for the Eastern District of New York in November 2014. 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 United States Court of Appeals for the Second Circuit. Another action, filed in the United States District Court for the Southern District of New York in 2017, was dismissed in March 2019 on similar grounds, but remains subject to appeal to the United States Court of Appeals for the Second Circuit. Other follow-on actions that are substantially similar to the two that have now been dismissed are pending in the same courts.

Regulatory matters (including investigations)

NWM N.V. Group's financial condition can be affected by the actions of various governmental and regulatory authorities in the Netherlands, the UK, the EU, the US and elsewhere. NatWest Group has engaged, and will continue to engage, in discussions with relevant governmental and regulatory authorities, including in the Netherlands, the UK, the EU, the US 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.

The NatWest Markets business in particular has been providing, and continues to provide, 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.

10. Litigation and regulatory matters continued

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 N.V. Group, remediation of systems and controls, public or private censure, restriction of NWM N.V. 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 N.V. 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.

EGB investigation

On 20 May 2021, the EC announced that it had adopted a decision in relation to an investigation into potential competition law violations in the primary and secondary market trading of European government bonds (EGBs) between 2007 and 2011 which involved the NatWest Markets business and six other banks. NatWest Group revealed the conduct to the EC and co-operated throughout the EC's investigation. NatWest Group (including NWM Plc and NWM N.V.) was granted immunity by the EC and was not fined.

11. Related party transactions

NWM N.V. has a related party relationship with associates, joint ventures, key management and shareholders. The UK Government through HM Treasury is the ultimate controlling party of NatWest Group plc. NWM N.V. enters into transactions with related parties.

Interim pricing agreement

NWM N.V. is a party to transfer pricing arrangements with NWM Plc under which NWM N.V. received income of €76 million (€53 million in H1 2020) for the activities it now performs for European clients on behalf of NWM Plc. The at arm's length nature of the transfer pricing arrangements is confirmed by transfer pricing documentation which has been prepared by an external expert.

Business transfers

For business transfers with NWM Plc and NWB Plc refer to Financial review and Note 9.

Full details of the NWM N.V. Group's related party transactions for the year ended 31 December 2020 are included in the NatWest Markets N.V. 2020 Annual Report and Accounts.

12. Post balance sheet events

Other than as disclosed there have been no other significant events between 30 June 2021 and the date of approval of these accounts which would require a change to or additional disclosure in the condensed consolidated financial statements.

13. Date of approval

The interim results for the half year ended 30 June 2021 were approved by the Supervisory Board on 29 July 2021.

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 N.V. 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 112 to 128 of the NatWest Markets N.V. 2020 Annual Report and Accounts. Any of the risks identified may have a material adverse effect on NWM N.V. Group's business, operations, financial condition or prospects. The current COVID-19 pandemic may exacerbate any of the risks described below.

Risks relating to the COVID-19 pandemic

- The effects of the COVID-19 pandemic on the UK, Dutch, European and global economies and financial markets and NWM N.V. Group's customers, as well as its competitive environment may continue to have a material adverse effect on NWM N.V. Group's business, results of operations and outlook.
- The adverse impact of the COVID-19 pandemic on the credit quality of NWM N.V. Group's counterparties has increased NWM N.V. Group's exposure to counterparty risk, which may adversely affect its business, results of operations and outlook.
- The COVID-19 pandemic may adversely affect NWM N.V. Group's strategy and impair its ability to meet its targets and to achieve its strategic objectives.
- The COVID-19 pandemic has heightened NWM N.V. Group's operational risks as many of its employees are working remotely which may also adversely affect NWM N.V. Group's ability to maintain effective internal controls.
- The effects of the COVID-19 pandemic could affect NWM N.V. 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.

Strategic risk

- NatWest Group is in the process of implementing its Purpose-led Strategy, which requires changes in the business and strategy of NWM Group and NWM N.V. Group, and entails material execution, commercial and operational risks for NWM N.V. Group.
- NWM Group (including NWM N.V. Group) may not be able to successfully implement the ongoing refocusing of NWM and it may not achieve its targets and NWM Group (including NWM N.V. Group) may not ultimately result in a viable, competitive business.

Economic and political risk

- NWM N.V. Group faces market risk as a result of political and economic risks and uncertainty in the UK, European and global markets.
- Continuing uncertainty regarding the effects of the UK's withdrawal from the European Union may continue to adversely affect NWM Plc (NWM N.V.'s parent company) and its operating environment and NatWest Group plc (NWM N.V.'s ultimate parent company) and may have an indirect effect on NWM N.V. Group.
- Changes in interest rates have affected and will continue to affect NWM N.V. Group's business and results.
- HM Treasury (or UKGI on its behalf) could exercise a significant degree of influence over NatWest Group and NWM N.V. Group is ultimately controlled by NatWest Group plc.

Financial resilience risk

- NWM Group, including NWM N.V. Group, may not meet the targets it communicates to the market, generate returns or implement its strategy effectively.
- NWM Group has undergone significant structural and other change, including as a result of the UK ring-fencing regime, acquisition of NatWest Markets N.V. and the implementation of NatWest Group's Purpose-led strategy (including the ongoing NWM Refocusing) and may continue to be subject to significant structural and other change, including as a result of asset or other transfers within or between NatWest Group entities.
- NWM N.V. is NatWest Group's banking and trading entity located in The Netherlands. NWM N.V. has recently repurposed its banking licence, and NWM N.V. Group may be subject to further changes.
- NWM N.V. may not meet the prudential regulatory requirements for capital and liquidity.
- NWM N.V. may not be able to adequately access sources of liquidity and funding.
- NWM N.V. may not manage its 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 N.V.) or any of their respective debt securities could adversely affect the availability of funding for NWM N.V. Group, reduce NWM N.V. Group's liquidity position and increase the cost of funding.
- NWM N.V. Group operates in markets that are highly competitive, with increasing competitive pressures and technology disruption.

Summary of principal risks and uncertainties continued

- NWM N.V. Group is reliant on access to the capital markets to meet its funding requirements. The inability to do so may adversely affect NWM N.V. Group.
- NWM N.V. Group may be adversely affected if NatWest Group fails to meet the requirements of regulatory stress tests.
- NWM N.V. Group has significant exposure to counterparty and borrower risk.
- NWM N.V. Group could incur losses or be required to maintain higher levels of capital as a result of limitations or failure of various models.
- NWM N.V. Group's financial statements are sensitive to underlying accounting policies, judgments, estimates and assumptions.
- Changes in accounting standards may materially impact NWM N.V. Group's financial results.
- NatWest Group (including NWM N.V.) may become subject to the application of statutory stabilisation or resolution powers which may result in, among other actions, the write-down or conversion of certain Eligible Liabilities (including NWM N.V.'s Eligible Liabilities).
- NatWest Group is subject to Bank of England oversight in respect of resolution, and NWM N.V. Group could be adversely affected should the Bank of England deem NatWest Group's preparations to be inadequate.

Climate and sustainability-related risks

- NWM N.V. Group and its customers may face significant climate-related risks, including in transitioning to a low-carbon economy, which may adversely impact NWM N.V. Group.
- NatWest Group’s Purpose-led Strategy includes one area of focus on climate change that is likely to require material changes to the business and operating model of NWM N.V. Group and entails significant execution risk.
- Any failure by NWM N.V. Group to implement effective and compliant climate change resilient systems, controls and procedures could adversely affect NWM N.V. Group’s ability to manage climate-related risks.
- There are significant uncertainties inherent in accurately modelling the impact of climate-related risks.
- A failure to adapt NWM N.V. 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 N.V. Group’s reputation, business, results of operations and outlook.
- Any reduction in the ESG ratings of NatWest Group (including NWM N.V. Group) could have a negative impact on NatWest Group’s (including NWM N.V. Group) reputation and on investors’ and customers risk appetite.
- Increasing levels of climate, environmental and sustainability-related laws, regulation and oversight may adversely affect NWM N.V. Group’s business and expose NWM N.V. Group to increased costs of compliance, regulatory sanction and reputational damage.
- NWM N.V. 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 N.V. Group's businesses.
- NWM N.V. Group is subject to increasingly sophisticated and frequent cyberattacks.
- NWM N.V. Group operations and strategy are highly dependent on the accuracy and effective use of data.
- NWM N.V. Group relies on attracting, retaining, developing and remunerating senior management and skilled personnel (such as market trading specialists), and is required to maintain good employee relations.
- NWM N.V. 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 N.V. Group.
- A failure in NWM N.V. Group's risk management framework could adversely affect NWM N.V. Group, including its ability to achieve its strategic objectives.
- NWM N.V. Group's operations are subject to inherent reputational risk.

Legal, regulatory and conduct risk

- NWM N.V. Group's businesses are subject to substantial regulation and oversight, which are constantly evolving and may adversely affect NWM N.V. Group.
- NWM N.V. Group and NWM Plc are subject to 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 N.V. Group.
- NWM N.V. Group may not effectively manage the transition of LIBOR and other IBOR rates to alternative risk free rates.

Additional information
Contact

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Presentation of Information

NatWest Markets N.V. (NWM N.V.) is a wholly owned subsidiary of RBS Holdings N.V. ('RBSH N.V.' or 'the intermediate holding company'). NWM N.V. Group refers to NWM N.V. and its subsidiary and associated undertakings. The term 'RBSH Group' refers to RBSH N.V. and its only subsidiary, NWM N.V.. RBSH N.V. is a wholly-owned subsidiary of NatWest Markets Plc (NWM Plc). The term 'NWM Group' refers to NWM Plc and its subsidiary and associated undertakings.

NatWest Group plc is 'the ultimate holding company'. The term 'NatWest Group' refers to NatWest Group plc and its subsidiary and associated undertakings. NatWest Group plc is registered at 36 St Andrew Square, Edinburgh, Scotland.

NWM N.V. publishes its financial statements in 'euro', the European single currency. The abbreviation '€' represents the 'euro', and the abbreviations '€m' and '€bn' represent millions and thousands of millions of euros, respectively, and references to 'cents' represent cents in the European Union ('EU'). The abbreviations '£m' and '£bn' represent millions and thousands of millions of pounds sterling, respectively, and references to 'pence' represent pence in the United Kingdom ('UK'). Reference to 'dollars' or '$' are to United States of America ('US') dollars. The abbreviations '$m' and '$bn' represent millions and thousands of millions of dollars, respectively, and references to 'cents' represent cents in the US. The term 'EEA' refers to European Economic Area.

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 N.V. Group's future economic results, business plans and current strategies. In particular, this document may include forward-looking statements relating to NWM N.V. Group in respect of, but not limited to: the impact of the COVID-19 pandemic, NWM N.V.'s regulatory capital position and related requirements, its financial position, profitability and financial performance (including financial, capital, cost savings and operational targets), the NWM Group refocusing 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, its exposure to third party risks and ensuring operational continuity in resolution, its credit exposures under certain specified scenarios, substantial regulation and oversight, ongoing legal, regulatory and governmental actions and investigations, the transition of LIBOR and other IBOR rates to alternative risk free rates and NWM N.V. Group's exposure to economic and political risks (including with respect to Brexit and climate change), operational risk, conduct risk, cyber and IT risk, key person risk and credit rating risk. Forward-looking statements are subject to a number of risks and uncertainties that might cause actual results and performance to differ materially from any expected future results or performance expressed or implied by the forward-looking statements. Factors that could cause or contribute to differences in current expectations include, but are not limited to: the impact of the COVID-19 pandemic, the outcome of legal, regulatory and governmental actions and investigations, legislative, political, fiscal and regulatory developments, accounting standards, competitive conditions, technological developments, interest and exchange rate fluctuations, general economic and political conditions and the impact of climate-related risks and the transitioning to a low-carbon economy. These and other factors, risks and uncertainties that may impact any forward-looking statement or the NWM N.V. Group's actual results are discussed in NWM N.V.'s 2020 Annual Report and Accounts (ARA), NWM N.V.'s Interim Results for H1 2021 and other public filings. The forward-looking statements contained in this document speak only as of the date of this document and NWM N.V. 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.

Management's report on the interim financial statements

Pursuant to section 5:25d, paragraph 2(c), of the Dutch Financial Supervision Act (Wet op het financieel toezicht (Wft)), the members of the Managing Board state that to the best of their knowledge:

- the interim financial statements give a true and fair view, in all material respects, of the assets and liabilities, financial position, and profit or loss of NatWest Markets N.V. and the companies included in the consolidation as at 30 June 2021 and for the six month period then ended.
- the interim report, for the six month period ending on 30 June 2021, gives a true and fair view of the information required pursuant to section 5:25d, paragraphs 8 and 9, of the Dutch Financial Supervision Act of NatWest Markets N.V. and the companies included in the consolidation.

Amsterdam
29 July 2021

Cornelis Visscher
Chief Financial Officer

NatWest Group plc 2138005O9XJIJN4JPN90
NatWest Markets N.V. X3CZP3CK64YBHON1LE12