NatWest Markets N.V.
Interim Results 2020

NatWest Markets N.V.
Results for the half year ended 30 June 2020

Responding to exceptional circumstances

In the uncertain and rapidly changing environment brought about by the Covid-19 pandemic, NWM N.V.'s priority has been to continue serving customers while protecting and supporting colleagues. NWM N.V. has been adapting business continuity plans and followed guidance from respective public health authorities, with processes having been adjusted in some areas to remain fully operational which included a rapid transition to the majority of employees working remotely.

NWM N.V. has continued to actively engage with customers on their financing and risk management needs and supported them on a number of significant transactions.

NWM N.V. has managed risk appropriately during the crisis and balance sheet, capital and liquidity metrics remained within appetite at 30 June 2020. During the height of the crisis, extensive planning and business continuity calls were held daily to oversee NWM N.V.'s incident management response. Although we have protected our core operations well, the effects of the Covid-19 pandemic have had, and are likely to continue to have, a material adverse impact on NWM N.V.'s business operations and may affect its financial performance and ability to meet its targets going forward.

Progress of strategic change

On 14 February NatWest Group, announced that NatWest Markets Group (NWM Group) will be refocused to support a more integrated corporate and institutional customer offering. NWM Group continues to progress its strategy to refocus towards NatWest Group's corporate and institutional customers and reduce RWAs. During H1 2020, further refinements have been made to simplify the customer product suite, including exiting the Custom Index Trading business and reduction of the third-party market making offering in flow Asset Backed Securities (ABS), Residential Mortgage-Backed Securities (RMBS) and Collaterised Loan Obligations (CLO). Additionally, NWM Group selected BNP Paribas as a strategic partner for the provision of execution and clearing of listed derivatives, following the decision to no longer offer these services for certain exchange traded derivatives, as announced in Q1 2020.

NWM Group has also actively identified and progressed RWAs reduction with a number of exits completed during H1 2020. Work is currently underway to review the impact for NatWest Markets N.V..

Outlook[(1)] We retain the Outlook as set out in NWM N.V.'s 2019 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 98 to 110 of NWM N.V.'s 2019 Annual Report and Accounts, as well as the Summary risk factors set out on pages 27 to 29 of this announcement. These statements constitute forward-looking statements. Refer to Forward-looking statements in this announcement.

Financial review

Loss attributable to controlling interests was €41 million compared with a profit of €527 million in H1 2019. This decrease was mainly due to total income of €52 million compared with €590 million in H1 2019, reflecting the H1 2019 gain on the merger of Alawwal bank of €516 million. Furthermore, there was an impairment loss of €39 million compared with a €1 million release in H1 2019.

Net interest income was €7 million compared with a loss of €5 million in H1 2019, primarily reflecting increases in interest receivable.

Non-interest income decreased by €550 million to €45 million compared with €595 million in H1 2019. Income from trading activities was a loss of €30 million (H1 2019 - €8 million gain), mainly driven by losses from debt securities of €57 million. Net fees and commissions of €78 million (H1 2019 - €63 million) primarily related to transfer pricing income from NatWest Markets Plc (NWM Plc), fee income from syndicate loans and guarantee fees. Other operating income was a loss of €3 million compared with €524 million in H1 2019, reflecting the H1 2019 gain on the merger of Alawwal bank of €516 million.

Operating expenses were €47 million in H1 2020 compared with €42 million in H1 2019. Staff costs increased by €12 million to €31 million in H1 2020 (H1 2019 - €19 million) and premises and equipment costs increased by €4 million to €5 million (H1 2019 - €1 million). Administrative expenses decreased by €12 million to €9 million, compared with €21 million in H1 2019, mainly driven by legacy items.

Impairments were a loss of €39 million compared with a release of €1 million in H1 2019. The unprecedented nature of the Covid-19 crisis has prompted a change of approach to formulating multiple economic scenarios (MES). The incorporation of these stresses has resulted in a probability of default (PD) deterioration across models and sectors, leading to an increase in IFRS 9 Stage 2 exposures and associated expected credit loss (ECL) provisioning. The net impairment charge of €39 million was driven by the new base case economic scenarios with a number of deals moving into Stage 2 and increased ECL on existing Stage 2 lending, as well as a downgrade of an individual significant exposure.

Tax charge for H1 2020 was €7 million compared with €22 million in H1 2019.

Balance sheet

Total assets and liabilities both increased by €5.6 billion to €20.1 billion and €17.9 billion respectively as at 30 June 2020, compared with 31 December 2019. The increases primarily reflect client flow activity, an increase in unsettled trades, as well as an increase in derivative fair values following a downward shift in interest rate yields.

- Cash and balances at central banks increased by €0.2 billion to €3.4 billion at 30 June 2020, with the full balance placed with the Dutch Central Bank.
- Trading assets decreased to €3.0 billion (31 December 2019 - €3.2 billion), driven by decreases in loans to customers and debt securities of €0.4 billion and €0.2 billion respectively, partially offset by an increase in loans to banks of €0.4 billion.
- Derivative assets increased to €5.1 billion (31 December 2019 - €3.9 billion) and derivative liabilities increased to €6.9 billion (31 December 2019 - €4.6 billion), primarily reflecting an increase in the fair value of interest rate derivatives.
- Settlement balance assets and liabilities were €0.9 billion (31 December 2019 - €0.1 billion) and €0.5 billion (31 December 2019 - €0.2 billion) respectively due to higher trading volume around June 2020 month end compared to December 2019 month end.
- Loans to banks - amortised cost decreased by €0.4 billion to €0.4 billion at 30 June 2020 mainly due to the decrease in non-euro cash placements held for liquidity buffer purposes.
- Loans to customers - amortised cost increased to €2.8 billion, compared with €1.4 billion, reflecting client flow activity.
- Amounts due from holding company and fellow subsidiaries increased to €3.5 billion compared with €1.4 billion at 31 December 2019, mainly due to increases in reverse repurchase agreements and deals pending settlement.
- Other financial assets increased by €0.4 billion, to €1.0 billion, reflecting an increase in treasury bills of €0.3 billion and an increase in loans to customers measured at fair value through other comprehensive income of €0.2 billion.
- Customer deposits increased from €1.4 billion to €2.4 billion, reflecting the raising of new funding.
- Amounts due to holding companies and fellow subsidiaries increased by €1.2 billion to €4.2 billion, mainly driven by an increase in bank deposits.
- Trading liabilities increased to €2.3 billion (31 December 2019 - €1.8 billion) reflecting increases in customer accounts and deposits by banks of €0.9 billion and €0.4 billion respectively, partially offset by a decrease in short positions of €0.8 billion.
- Other financial liabilities increased to €0.6 billion, compared with €0.2 billion driven by an increase in deposits from customers designated at fair value through profit or loss.
- Equity attributable to controlling interests decreased by €17 million to €2.2 billion, mainly driven by the loss for the period of €41 million, dividends paid on AT1 capital securities of €7 million, currency translation adjustments of €6 million and fair value through other comprehensive income movements of €4 million. This was partially offset by own credit adjustments of €41 million due to the widening 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 2020	31 December 2019
Capital ratios	**%**	%
CET 1	**24.9**	23.1
Tier 1	**28.9**	26.7
Total	**32.3**	29.9
Risk-weighted assets	**€m**	€m
Credit risk	**4,957**	5,186
Market risk	**786**	1,255
Operational risk	**605**	624
Settlement risk	**-**	17
Total RWAs	**6,348**	7,082
Liquidity	**%**	%
Liquidity coverage ratio (LCR)	**192**	505

Key points

- The increase in the CET1 ratio was primarily caused by the decrease in RWAs (€0.7 billion), which mainly reflected a reduction in counterparty credit risk on derivative positions driven by Covid-19 market movements and a reduction in market risk due to lower bond positions in the trading book and lower banking book FX following the liquidation of a legacy entity.
- There were no capital actions during H1 2020.
- The decrease in the LCR ratio was driven by the Covid-19 related impact including the volatility of collateral requirements as well as increased drawing on committed facilities.

Financial statements

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

	Half year ended	
	30 June 2020 €m	30 June 2019 €m
Interest receivable	**26**	15
interest payable	**(19)**	(20)
Net interest income	**7**	(5)
Fees and commissions receivable	**103**	71
Fees and commissions payable	**(25)**	(8)
Income from trading activities	**(30)**	8
Other operating income (1)	**(3)**	524
Non-interest income	**45**	595
Total income	**52**	590
Operating expenses	**(47)**	(42)
Profit before impairment (losses)/releases	**5**	548
Impairment (losses)/releases	**(39)**	1
Operating (loss)/profit before tax	**(34)**	549
Tax charge	**(7)**	(22)
(Loss)/profit for the period	**(41)**	527
Attributable to:		
Ordinary shareholders	**(48)**	527
Paid-in equity holders	**7**	-
	(41)	527

Note:
(1) 2019 includes gain of €516 million on completion of the Alawwal bank merger.

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

	Half year ended	
	30 June 2020 €m	30 June 2019 €m
(Loss)/profit for the period	**(41)**	527
Items that do not qualify for reclassification		
Profit/(loss) on fair value of credit in financial liabilities designated at fair value through profit or loss due to own credit risk	**41**	(65)
FVOCI financial assets	**1**	4
	42	(61)
Items that qualify for reclassification		
FVOCI financial assets	**(5)**	-
Currency translation	**(6)**	23
	(11)	23
Other comprehensive income/(loss) after tax	**31**	(38)
Total comprehensive (loss)/income for the period attributable to controlling interests	**(10)**	489
Attributable to:		
Ordinary shareholders	**(17)**	489
Paid-in equity holders	**7**	-
	(10)	489

Financial statements

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

	30 June 2020 €m	31 December 2019 €m
Assets		
Cash and balances at central banks	**3,357**	3,191
Trading assets	**2,994**	3,155
Derivatives	**5,078**	3,898
Settlement balances	**873**	141
Loans to banks - amortised cost	**379**	738
Loans to customers - amortised cost	**2,782**	1,374
Amounts due from ultimate holding company and fellow subsidiaries	**3,527**	1,368
Other financial assets	**1,009**	562
Other assets	**72**	67
Total assets	**20,071**	14,494
Liabilities		
Bank deposits	**131**	59
Customer deposits	**2,360**	1,447
Amounts due to ultimate holding company and fellow subsidiaries	**4,243**	3,021
Settlement balances	**522**	209
Trading liabilities	**2,292**	1,832
Derivatives	**6,886**	4,588
Other financial liabilities	**620**	240
Subordinated liabilities	**618**	642
Other liabilities	**208**	248
Total liabilities	**17,880**	12,286
Equity attributable to controlling interests	**2,191**	2,208
Total liabilities and equity	**20,071**	14,494

Financial statements

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

	Half year ended	
	30 June 2020 €m	30 June 2019 €m
Share premium account		
At beginning of period	**1,700**	7,024
Capital injection (1)	**-**	50
Distribution (2)	**-**	(1,159)
At end of period	**1,700**	5,915
Paid-in equity		
At beginning of period	**250**	-
Securities issued during the period (3)	**-**	250
At end of period	**250**	250
FVOCI reserve - at beginning of period		
At beginning of period	**4**	(2)
Unrealised (losses)/gains	**(5)**	10
Realised losses(gains)	**1**	(6)
At end of period	**-**	2
Foreign exchange reserve		
At beginning of period	**12**	(18)
Retranslation of net assets	**(6)**	24
Foreign currency losses on hedges of net assets	**-**	(30)
Recycled to profit or loss on disposal of business	**-**	29
At end of period	**6**	5
Retained earnings		
At beginning of period	**242**	(3,771)
(Loss)/profit attributable to ordinary shareholders and other equity owners	**(41)**	527
Paid-in equity dividends paid	**(7)**	-
Changes in fair value of credit in financial liabilities designated at fair value through profit or loss	**41**	(65)
Distribution (4)	**-**	(29)
At end of period	**235**	(3,338)
Total equity at end of period	**2,191**	2,834
Attributable to:		
Ordinary shareholders	**1,941**	2,584
Paid-in equity holders	**250**	250
	2,191	2,834

Notes:
(1) Capital injection of €50 million from RFS Holdings B.V. reflecting amounts received by RFS Holdings from Santander.
(2) Distributions of the right to receive SABB interests via RFS Holdings B.V. to Santander and the Dutch State following the Alawwal bank merger becoming effective.
(3) AT1 capital notes totalling €250 million issued in June 2019.
(4) N-share capital repatriation of €29 million.

Financial statements

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

	Half year ended	
	30 June 2020 €m	30 June 2019 (1) €m
Operating activities		
Operating (loss)/profit before tax	**(34)**	549
Adjustments for non-cash items	**(13)**	(436)
Net cash (outflow)/inflow from trading activities	**(47)**	113
Changes in operating assets and liabilities	**2,239**	2,632
Net cash flows from operating activities before tax	**2,192**	2,745
Income taxes paid	**(3)**	(79)
Net cash flows from operating activities	**2,189**	2,666
Net cash flows from investing activities	**(64)**	884
Net cash flows from financing activities	**(39)**	58
Effects of exchange rate changes on cash and cash equivalents	**48**	(13)
Net increase in cash and cash equivalents	**2,134**	3,595
Cash and cash equivalents at beginning of period	**5,297**	1,000
Cash and cash equivalents at end of period	**7,431**	4,595

Note:
(1) 2019 has been re-presented to align to the balance sheet classification.

Notes

1. Basis of preparation

NatWest Markets N.V. condensed consolidated interim 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. 2019 Annual Report and Accounts which were prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, as adopted by the European Union (EU) (together IFRS).

The condensed consolidated interim financial statements are unaudited. In the opinion of management, all relevant disclosures necessary for an understanding of the changes in the consolidated financial position and performance of the NWM N.V. since the end of the last annual reporting period have been made.

Going concern

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

2. Accounting policies

NatWest Markets N.V.'s principal accounting policies are as set out on pages 47 to 50 of the NatWest Markets N.V. 2019 Annual Report and Accounts and are unchanged other than as presented below.

Accounting policy changes effective 1 January 2020

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

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

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

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

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

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

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

Amendment to IFRS effective 1 June 2020

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

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

Notes

2. Accounting policies continued

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. Critical accounting policies and judgements relating to tax and fair value are described on page 50 of the NatWest Markets N.V. 2019 Annual Report and Accounts. Loan impairment provisions is considered to be a critical accounting policy for the first time at H1 2020.

The loan impairment provisions have been established in accordance with IFRS 9. Accounting policy 10 of the NatWest Markets N.V. 2019 Annual Report and Accounts sets out how the expected loss approach is applied. At 30 June 2020, customer loan impairment provisions amounted to €115 million (31 December 2019 - €78 million). A loan is impaired when there is objective evidence that the cash flows will not occur in the manner expected when the loan was advanced. Such evidence includes, changes in the credit rating of a borrower, the failure to make payments in accordance with the loan agreement, significant reduction in the value of any security, breach of limits or covenants, and observable data about relevant macroeconomic measures. The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate. The measurement of credit impairment under the IFRS expected loss model depends on management's assessment of any potential deterioration in the creditworthiness of the borrower, its modelling of expected performance and the application of economic forecasts. All three elements require judgments that are potentially significant to the estimate of impairment losses and further detail on each is described in Note 12 of NatWest Markets N.V. 2019 Annual Report and Accounts. During H1 2020, estimation uncertainty has been affected by the Covid-19 pandemic.

Information used for significant estimates

The Covid-19 pandemic has continued to cause significant economic and social disruption during the period ended 30 June 2020. Key financial estimates are based on a range of anticipated future economic conditions described by internally developed scenarios. 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. Key macroeconomic assumptions are disclosed in Note 8. Changes in judgements and assumptions could result in a material adjustment to those estimates in the next reporting periods, and this has been considered in the risk factors on pages 27 to 29.

Several regulators and standard setters including the IASB and the UK Prudential Regulation Authority (PRA) issued guidance on how to consider the provisions of IFRS 9 ECL in the context of the Covid-19 pandemic. Management's consideration of this source of uncertainty is outlined in Note 4, Note 7 and Note 8 of this announcement.

3. Analysis of net fees and commissions

	Half year ended	
	30 June 2020 €m	30 June 2019 €m
Fees and commissions receivable		
- Transfer pricing arrangements (Note 11)	**53**	57
- Underwriting fees	**12**	5
- Lending (credit facilities)	**10**	2
- Brokerage	**6**	2
- Other	**22**	5
Total	**103**	71
Fees and commissions payable	**(25)**	(8)
Net fees and commissions	**78**	63

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 2020 €m	30 June 2019 €m
(Loss)/profit before tax	**(34)**	549
Expected tax credit/(charge)	**8**	(137)
Losses in period where no deferred tax asset recognised	**(8)**	-
Foreign losses taxed at other rates	**-**	(2)
Non-taxable items (including the gain in relation to the Alawwal bank merger)	**(1)**	127
Losses brought forward and utilised	**-**	12
Adjustments in respect to prior years	**(6)**	-
Reduction in carrying value of deferred tax asset in respect of associates	**-**	(22)
Actual tax charge	**(7)**	(22)

In consideration of the uncertainties as set out in NWM N.V.'s 2019 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.

	30 June 2020 €m	31 December 2019 €m
Assets		
Loans		
Reverse repos	**299**	1,176
Collateral given	**2,539**	1,637
Other loans	**-**	11
Total loans	**2,838**	2,824
Securities		
- Netherlands	**-**	33
- UK	**3**	3
- RoW	**153**	295
Total securities	**156**	331
Total	**2,994**	3,155
Liabilities		
Deposits		
Repos	**1,444**	330
Collateral received	**826**	660
Other deposits	**6**	5
Total deposits	**2,276**	995
Short positions	**16**	837
Total	**2,292**	1,832

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 9.

	30 June 2020							31 December 2019		
	Notional									
	GBP €bn	USD €bn	Euro €bn	Other €bn	Total €bn	Assets €m	Liabilities €m	Notional €bn	Assets €m	Liabilities €m
Gross exposure						3,216	5,909		2,491	3,603
IFRS offset						-	-		(5)	(5)
Carrying value	590	33	1,443	13	2,079	3,216	5,909	1,862	2,486	3,598
Of which:										
Interest rate (1)										
Interest rate swaps						1,969	3,928		1,414	2,123
Options purchased						518	-		318	-
Options written						-	369		-	324
Total	582	6	1,413	1	2,002	2,487	4,297	1,780	1,732	2,447
Exchange rate										
Spot, forwards and futures						434	843		591	605
Currency swaps						274	715		128	525
Options purchased						20	-		35	-
Options written						-	50		-	13
Total	8	27	30	12	77	728	1,608	82	754	1,143
Credit	-	-	-	-	-	1	4	-	-	8
Carrying value					2,079	3,216	5,909	1,862	2,486	3,598
Counterparty mark-to-market netting						(2,060)	(2,060)		(1,400)	(1,400)
Cash collateral						(736)	(2,427)		(587)	(1,280)
Securities collateral						(61)	(862)		(105)	-
Net exposure						359	560		394	918
Banks (2)						6	34		3	6
Other financial institutions (3)						275	206		254	720
Corporate (4)						75	320		136	192
Government (5)						3	-		1	-
Net exposure						359	560		394	918
UK						9	4		115	714
Europe						308	556		200	186
US						-	-		41	18
RoW						42	-		38	-
Net exposure						359	560		394	918

Notes:
(1) The notional amount of interest rate derivatives includes €1,943 billion (31 December 2019 – €1,734 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) 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 one-way collateral agreements in their favour.

Notes

7. 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 (1) €m	FVOCI (2) €m	Amortised cost €m	Other assets €m	Total €m
Cash and balances at central banks			**3,357**		**3,357**
Trading assets	**2,994**				**2,994**
Derivatives (3)	**5,078**				**5,078**
Settlement balances			**873**		**873**
Loans to banks - amortised cost			**379**		**379**
Loans to customers - amortised cost			**2,782**		**2,782**
Amounts due from holding companies and fellow subsidiaries	**2,523**	**-**	**1,004**	**-**	**3,527**
Other financial assets	**6**	**970**	**33**		**1,009**
Other assets				**72**	**72**
30 June 2020	**10,601**	**970**	**8,428**	**72**	**20,071**
Cash and balances at central banks			3,191		3,191
Trading assets	3,155				3,155
Derivatives (3)	3,898				3,898
Settlement balances			141		141
Loans to banks - amortised cost			738		738
Loans to customers - amortised cost			1,374		1,374
Amounts due from holding companies and fellow subsidiaries	896	-	465	7	1,368
Other financial assets	7	521	34		562
Other assets				67	67
31 December 2019	7,956	521	5,943	74	14,494

Liabilities	Held-for-trading €m	DFV (4) €m	Amortised cost €m	Other liabilities €m	Total €m
Bank deposits			**131**		**131**
Customer deposits			**2,360**		**2,360**
Amounts due to holding companies and fellow subsidiaries	**2,266**		**1,977**	**-**	**4,243**
Settlement balances			**522**		**522**
Trading liabilities	**2,292**				**2,292**
Derivatives (3)	**6,886**				**6,886**
Other financial liabilities		**385**	**235**		**620**
Subordinated liabilities		**355**	**263**		**618**
Other liabilities (5)			**13**	**195**	**208**
30 June 2020	**11,444**	**740**	**5,501**	**195**	**17,880**
Bank deposits			59		59
Customer deposits			1,447		1,447
Amounts due to holding companies and fellow subsidiaries	1,530		1,485	6	3,021
Settlement balances			209		209
Trading liabilities	1,832				1,832
Derivatives (3)	4,588				4,588
Other financial liabilities		-	240		240
Subordinated liabilities		382	260		642
Other liabilities (5)			9	239	248
31 December 2019	7,950	382	3,709	245	12,286

Notes:
(1) Mandatory fair value through profit or loss.
(2) Fair value through other comprehensive income.
(3) Includes derivative assets held for hedging purposes of €7 million (31 December 2019 - €2 million). NWM N.V. does not any hold derivative liabilities for hedging purposes in either period.
(4) Designated as at fair value through profit or loss.
(5) Includes lease liabilities of €11 million (31 December 2019 - €9 million).

Notes

7. Financial instruments: classification continued

Includes amounts due from/to holding companies and fellow subsidiaries, as follows:

	30 June 2020			31 December 2019		
	Holding companies €m	**Fellow subsidiaries €m**	**Total €m**	Holding companies €m	Fellow subsidiaries €m	Total €m
Assets						
Loans to banks and customers	**2,813**	**714**	**3,527**	1,065	296	1,361
Other assets	**-**	**-**	**-**	7	-	7
Total inter-group assets	**2,813**	**714**	**3,527**	1,072	296	1,368
Not included above:						
Derivatives	**1,862**	**-**	**1,862**	1,412	-	1,412
Liabilities						
Bank and customer deposits	**3,993**	**97**	**4,090**	2,472	393	2,865
Other financial liabilities - subordinated liabilities	**150**	**-**	**150**	150	-	150
Other liabilities	**-**	**3**	**3**	2	4	6
Total inter-group liabilities	**4,143**	**100**	**4,243**	2,624	397	3,021
Not included above:						
Derivatives	**977**	**-**	**977**	990	-	990

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

	30 June 2020 €m	31 December 2019 €m
Reverse repos		
Trading assets	**299**	1,176
Repos		
Trading liabilities	**1,444**	330

Reverse repo and repo movements primarily relate to government securities.

Notes

7. Financial instruments: classification continued

Financial instruments: carried at fair value - valuation hierarchy

Disclosures relating to the control environment, valuation techniques and related aspects pertaining to financial instruments measured at fair value are included in NWM N.V.'s 2019 Annual Report and Accounts. Valuation and input methodologies at 30 June 2020 are consistent with those described in Note 10 to NWM N.V.'s 2019 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 2020			31 December 2019		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
	€m	**€m**	**€m**	€m	€m	€m
Assets						
Trading assets						
Loans	**-**	**2,838**	**-**	-	2,824	-
Securities	**153**	**-**	**3**	181	147	3
Derivatives	**-**	**4,885**	**193**	-	3,682	216
Amounts due from holding companies and fellow subsidiaries	**-**	**2,523**	**-**	-	896	-
Other financial assets						
Loans	**-**	**-**	**174**	-	-	-
Securities	**268**	**534**	**-**	285	243	-
Total financial assets held at fair value	**421**	**10,780**	**370**	466	7,792	219
Liabilities						
Amounts due to holding companies and fellow subsidiaries	**-**	**2,266**	**-**	-	1,530	-
Trading liabilities						
Deposits	**-**	**2,276**	**-**	-	995	-
Short positions	**-**	**16**	**-**	736	101	-
Derivatives	**-**	**6,812**	**74**	-	4,524	64
Other financial liabilities - deposits	**-**	**385**	**-**	-	-	-
Subordinated liabilities	**-**	**355**	**-**	-	382	-
Total financial liabilities held at fair value	**-**	**12,110**	**74**	736	7,532	64

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.

	30 June 2020			31 December 2019		
	Level 3	**Favourable**	**Unfavourable**	Level 3	Favourable	Unfavourable
Assets	**€m**	**€m**	**€m**	€m	€m	€m
Trading assets - securities	**3**	**-**	**-**	3	-	-
Derivatives						
Interest rate	**170**	**10**	**(10)**	194	20	(20)
Foreign exchange	**6**	**-**	**-**	12	-	-
Other	**17**	**-**	**-**	10	-	-
Other financial assets - loans	**174**	**-**	**-**	-	-	-
Total financial assets held at fair value	**370**	**10**	**(10)**	219	20	(20)
Liabilities						
Derivatives						
Interest rate	**51**	**-**	**-**	36	-	-
Foreign exchange	**-**	**-**	**-**	2	-	-
Other	**23**	**-**	**-**	26	10	(10)
Total financial liabilities held at fair value	**74**	**-**	**-**	64	10	(10)

Notes

7. Financial instruments: classification continued

Movement in Level 3 portfolios

	Half year ended 30 June 2020				Half year ended 30 June 2019			
	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	219	-	219	64	146	-	146	152
Amount recorded in the income statement (3)	(24)	-	(24)	9	5	-	5	72
Level 3 transfers in	-	174	174	-	1	-	1	120
Level 3 transfers out	(1)	-	(1)	(1)	(1)	-	(1)	(20)
Purchases	72	-	72	14	130	-	130	185
Settlements	(57)	-	(57)	(9)	-	-	-	(63)
Sales	(5)	-	(5)	(3)	(8)	-	(8)	(26)
Foreign exchange and other adjustments	(8)	-	(8)	-	-	-	-	-
At 30 June	196	174	370	74	273	-	273	420
Amounts recorded in the income statement in respect of balances held at year end - unrealised	(24)	-	(24)	9	6	-	6	72

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.
(3) There were €33 million net losses on trading assets and liabilities (30 June 2019 – €67 million) recorded in income from trading activities.

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 2020	€m	€m	€m	Level 2 €m	Level 3 €m
Financial assets					
Cash and balances at central banks	3,357				
Settlement balances	873				
Loans to banks		379	379	9	370
Loans to customers		2,782	2,749	-	2,749
Amounts due from holding companies and fellow subsidiaries		1,004	1,004	-	1,004
Other financial assets		33	33	-	33
Financial liabilities					
Bank deposits	25	106	106	-	106
Customer deposits	723	1,637	1,637	-	1,637
Amounts due to holding companies and fellow subsidiaries	336	1,641	1,637	146	1,491
Settlement balances	522				
Other financial liabilities		235	235	235	-
Subordinated liabilities		263	376	376	-
31 December 2019					
Financial assets					
Cash and balances at central banks	3,191				
Settlement balances	141				
Loans to banks		738	738	-	738
Loans to customers		1,374	1,360	-	1,360
Amounts due from holding companies and fellow subsidiaries		465	465	-	465
Other financial assets		34	34	-	34
Financial liabilities					
Bank deposits	9	50	50	-	50
Customer deposits	172	1,275	1,275	-	1,275
Amounts due to holding companies and fellow subsidiaries	93	1,392	1,392	151	1,241
Settlement balances	209				
Other financial liabilities		240	240	240	-
Subordinated liabilities		260	260	258	2

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Quoted market values are used where available; otherwise, fair values have been estimated based on discounted expected future cash flows and other valuation techniques. These techniques involve uncertainties and require assumptions and 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

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

The most material economic loss drivers in NWM N.V. Group include national gross domestic product (GDP), unemployment rates, house price indices and central bank base rates.

Economic scenarios

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

For NWM N.V. Group, the scenarios include global, UK specific and EU specific economic factors such as GDP growth, base rates and unemployment. The tables and commentary below provide details of the key economic indicators under the four scenarios. The average over the five-year horizon (2020 to 2024) for the two central scenarios and upside and downside scenarios used for expected credit loss (ECL) modelling, are set out below. It is compared with the five-year average (2020 to 2024) of the 2019 scenarios.

Notes

8. Loan impairment provisions continued

Economic loss drivers

Five-year average

	30 June 2020				31 December 2019				
	Upside	**Central 1**	**Central 2**	**Downside**	Upside 2	Upside 1	Base case	Downside 1	Downside 2
Eurozone	%	%	%	%	%	%	%	%	%
GDP - change	**1.3**	**1.5**	**0.4**	**(1.1)**	2.3	1.9	1.4	1.2	0.7
Unemployment	**9.0**	**9.6**	**12.0**	**15.3**	7.3	7.6	8.1	8.7	10.0
European Central Bank base rate	**-**	**-**	**-**	**-**	1.6	0.9	-	-	-
World GDP - change	**2.8**	**2.9**	**2.0**	**1.3**	3.8	3.3	2.8	2.5	2.1

Economic parameters five year outlook

Eurozone GDP - annual growth	**Upside** %	**Central 1** %	**Central 2** %	**Downside** %
2020	**(10.0)**	**(16.2)**	**(16.1)**	**(19.3)**
2021	**11.3**	**17.6**	**12.7**	**2.3**
2022	**2.6**	**3.4**	**2.2**	**4.4**
2023	**1.4**	**1.4**	**1.8**	**6.0**
2024	**1.3**	**1.3**	**1.3**	**1.4**

Eurozone unemployment rate	**Upside** %	**Central 1** %	**Central 2** %	**Downside** %
Q4 2020	**11.7**	**13.8**	**14.7**	**20.0**
Q4 2021	**8.7**	**9.1**	**12.4**	**16.4**
Q4 2022	**8.1**	**8.1**	**11.2**	**14.6**
Q4 2023	**8.1**	**8.1**	**10.4**	**12.8**
Q4 2024	**8.1**	**8.1**	**10.2**	**12.1**

World GDP - annual growth	**Upside** %	**Central 1** %	**Central 2** %	**Downside** %
2020	**(5.5)**	**(9.7)**	**(9.5)**	**(11.6)**
2021	**10.4**	**14.7**	**10.5**	**6.2**
2022	**3.9**	**4.4**	**3.4**	**6.3**
2023	**2.6**	**2.6**	**3.0**	**2.7**
2024	**2.6**	**2.6**	**2.6**	**2.6**

Probability weightings of scenarios

The scale of the economic impact of Covid-19 and the range of recovery paths necessitates a change of approach to assigning probability weights from that used in recent updates. Previously GDP paths for 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. This approach does not produce meaningful outcomes in the current circumstances because GDP is highly volatile and highly uncertain.

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

The Wholesale Lending methodology is based on the concept of credit cycle indices (CCI). The CCI represents all relevant economic loss drivers for a region/industry segment aggregated into a single index value describing the loss rate conditions in the respective segment relative to its long-run average. That means a CCI value of zero corresponds to loss rates at long-run average levels, a positive CCI value corresponds to loss rates below long-run average levels and a negative CCI value corresponds to loss rates above long-run average levels.

The four economic scenarios outlined above are translated into individual projections of CCIs for each region/industry segment which are then subsequently aggregated into a single central CCI projection by calculating a weighted average according to the given scenario probabilities. The CCI projection for each economic scenario, and by extension the weighted central CCI projection, are overlaid with an additional assumption that after one to two years into the forecast period credit cycle conditions gradually revert to long-run average conditions, i.e. CCI values mean revert to zero.

Notes

8. Loan impairment provisions continued

Economic loss drivers

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

The rationale for the Wholesale approach, is the long-standing observation that loss rates in Wholesale portfolios tend to follow regular cycles. This allows 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 the discrete macro-economic scenarios alone.

Covid-19 – estimating ECL in uncertain times

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

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

Treatment of Covid-19 relief mechanisms

Use of Covid-19 relief mechanisms will not automatically merit identification of SICR and trigger a Stage 2 classification in isolation. For Wholesale customers, at H1 2020, lifetime PD deterioration remains the primary driver of SICR identification, amplified by the forward-looking economics. NWM Group continues to provide support, where appropriate, to existing customers. Those who are deemed either to require a) a prolonged timescale to return within NWM Group's risk appetite or b) not to be viable pre-crisis or c) not to be able to sustain their debt once the crisis is over will trigger a SICR and, if concessions are sought, be categorised as forborne, in line with regulatory guidance.

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

- The timing and nature of governmental exit plans from lockdown and any future repeated lockdown requirements.
- The progress of the pandemic, with potential for changes in worker/consumer behaviour and sickness levels.
- The efficacy of the various government support initiatives in terms of their ability to defray customer defaults is yet to be proven, notably over an extended period.
- Any further damage to certain supply chains, most notably in the case of any re-tightening of lockdown rules but also delays caused by social distancing measures and possible export/import controls.
- The level of revenues lost by corporate clients and pace of recovery of those revenues may affect NWM N.V. Group's clients' ability to service their borrowing, especially in those sectors most exposed to the impacts of Covid-19.
- Higher unemployment if companies fail to restart jobs after periods of staff furlough.

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

Notes

8. Loan impairment provisions continued

Economic loss drivers

Model performance

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

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

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

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

Measurement uncertainty and ECL sensitivity analysis

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

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

The impact arising from the downside, upside and the central 1 scenarios were 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 100% probability weighting and thus serving as a single economic scenario.

These scenarios have been applied to all modelled portfolios, with the simulation impacting both PDs and LGDs. Modelled overlays present in the underlying ECL estimates are also sensitised. As expected, the scenarios create differing impacts on ECL by portfolio and the impacts are deemed reasonable. In this simulation, it is assumed that existing modelled relationships between key economic variables and loss drivers hold, but in practice other factors would also have an impact, for example, potential customer behaviour changes, policy changes by lenders that might impact on the wider availability of credit.

Notes

8. Loan impairment provisions continued

In the upside scenario, the modelled ECL requirement was simulated to reduce by €15 million in Stage 1 and Stage 2 exposures from the current level of €44 million. This equated to a coverage rate reduction of 24 bps on Stage 1 and Stage 2 exposures (coverage moved from 0.68% to 0.44%). In the downside scenario, the modelled ECL requirement was simulated to increase by €33 million on Stage 1 and Stage 2 exposures from the current level of €44 million. This equated to a coverage rate increase of 51 bps on Stage 1 and Stage 2 exposures (coverage moved from 0.68% to 1.18%).

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

	30 June 2020 €m	31 December 2019 €m
Loans - amortised cost and fair value through other comprehensive income		
Stage 1	**1,901**	1,997
Stage 2	**1,478**	117
Stage 3	**74**	79
Inter-Group (1)	**1,004**	462
Total	**4,457**	2,655
ECL provisions (2)		
Stage 1	**3**	2
Stage 2	**41**	2
Stage 3	**71**	74
Total	**115**	78
ECL provisions coverage (3,4)		
Stage 1 (%)	**0.16**	0.10
Stage 2 (%)	**2.77**	1.71
Stage 3 (%)	**95.95**	93.67
Total	**2.58**	3.56
Other financial assets - Gross exposure	**4,136**	3,698
Other financial assets - ECL provision	**1**	-

	Half year ended	
	30 June 2020 €m	30 June 2019 €m
Impairment losses		
ECL charge - third party (5)	**38**	(1)
ECL loss rate (basis points) - third party (4)	**220.1**	(20.7)
Amounts written off	**1**	-

Notes:
(1) The NWM N.V. Group's intercompany assets were classified in Stage 1. The ECL attached to these loans was €0.1 million at 30 June 2020 (31 December 2019 – €0.1 million).
(2) Includes €1 million (31 December 2019 – nil) related to assets at FVOCI.
(3) ECL provisions coverage is calculated as ECL provisions divided by loans.
(4) ECL provisions coverage and ECL loss rates are calculated on third party loans and related ECL provisions and charge respectively.
(5) Includes nil (30 June 2019 – nil) relating to other financial assets, of which nil related to other financial assets at FVOCI (30 June 2019 – nil) and €1 million (30 June 2019 – nil) relating to contingent liabilities.
(6) The table above shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to page 13 for Financial instruments within the scope of the IFRS 9 ECL framework for further details. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totalling €3.4 billion and debt securities of €0.8 billion (31 December 2019 – €3.2 billion and €0.5 billion respectively).

Notes

8. Loan impairment provisions continued

Sector analysis

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

30 June 2020	Loans - amortised cost & FVOCI (1)				Off-balance sheet		ECL provisions (2)			
	Stage 1 €m	Stage 2 €m	Stage 3 €m	Total €m	Loan commitments €m	Contingent liabilities €m	Stage 1 €m	Stage 2 €m	Stage 3 €m	Total €m
Wholesale	**1,901**	**1,478**	**74**	**3,453**	**6,829**	**626**	**3**	**41**	**71**	**115**
Property	**2**	**51**	**-**	**53**	**594**	**1**	**-**	**1**	**-**	**1**
Financial institutions	**480**	**238**	**-**	**718**	**572**	**598**	**1**	**24**	**-**	**25**
Corporate	**1,419**	**1,189**	**74**	**2,682**	**5,663**	**27**	**2**	**16**	**71**	**89**
Of which:										
Airlines and aerospace	***-***	***156***	***-***	***156***	***138***	***-***	***-***	***3***	***-***	***3***
Automotive	***152***	***324***	***-***	***476***	***280***	***-***	***1***	***2***	***-***	***3***
Land transport and logistics	***79***	***205***	***1***	***285***	***345***	***-***	***-***	***3***	***-***	***3***
Leisure	***-***	***97***	***-***	***97***	***132***	***-***	***-***	***2***	***-***	***2***
Oil and gas	***-***	***20***	***37***	***57***	***134***	***-***	***-***	***1***	***35***	***36***
Retail	***-***	***-***	***-***	***-***	***485***	***-***	***-***	***-***	***-***	***-***
Shipping	***-***	***-***	***-***	***-***	***10***	***8***	***-***	***-***	***-***	***-***
Total	**1,901**	**1,478**	**74**	**3,453**	**6,829**	**626**	**3**	**41**	**71**	**115**

31 December 2019	Loans - amortised cost (1)				Off-balance sheet		ECL provisions (2)			
	Stage 1 €m	Stage 2 €m	Stage 3 €m	Total €m	Loan commitments €m	Contingent liabilities €m	Stage 1 €m	Stage 2 €m	Stage 3 €m	Total €m
Wholesale	1,997	117	79	2,193	7,513	989	2	2	74	78
Property	93	-	-	93	473	1	-	-	-	-
Financial institutions	1,170	2	-	1,172	863	964	1	-	2	3
Sovereign	1	-	-	1	-	-	-	-	-	-
Corporate	733	115	79	927	6,177	24	1	2	72	75
Of which:										
Airlines and aerospace	*-*	*-*	*-*	*-*	*294*	*-*	*-*	*-*	*-*	*-*
Automotive	*3*	*-*	*-*	*3*	*759*	*-*	*-*	*-*	*-*	*-*
Health	*-*	*-*	*-*	*-*	*30*	*-*	*-*	*-*	*-*	*-*
Land transport and logistics	*74*	*-*	*1*	*75*	*396*	*-*	*-*	*-*	*-*	*-*
Leisure	*-*	*56*	*-*	*56*	*182*	*-*	*-*	*1*	*-*	*1*
Oil and gas	*80*	*-*	*37*	*117*	*118*	*-*	*-*	*-*	*36*	*36*
Retail	*21*	*-*	*-*	*21*	*426*	*-*	*-*	*-*	*-*	*-*
Shipping	*-*	*-*	*-*	*-*	*14*	*4*	*-*	*-*	*-*	*-*
Total	1,997	117	79	2,193	7,513	989	2	2	74	78

Notes:

(1) The table was prepared consistently with NWM N.V. 2019 Annual Report and Accounts, in which, loans represent gross loans to customers and banks.

(2) The economic uncertainty overlay was applied based on the existing staging position of the exposure.

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 therefore differ from those reported in other tables, principally in relation to exposures in Stage 1 and Stage 2. These differences do not have a material ECL impact 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 2020	5,618.6	2.3	122.9	2.4	79.9	73.5	5,821.4	78.2
Currency translation and other adjustments	(137.2)	-	17.4	(0.3)	(0.3)	(0.7)	(120.1)	(1.0)
Inter-Group movements	2.4	-	-	-	-	-	2.4	-
Transfers from Stage 1 to Stage 2	(1,085.9)	(3.9)	1,085.9	3.9	-	-	-	-
Transfers from Stage 2 to Stage 1	14.1	0.2	(14.1)	(0.2)	-	-	-	-
Net re-measurement of ECL on stage transfer		(0.2)		31.3		-		31.1
Changes in risk parameters (model inputs)		2.5		3.5		(7.5)		(1.5)
Other changes in net exposure	950.7	2.3	384.8	0.5	(5.0)	6.5	1,330.5	9.3
Other Profit or loss only items		-		-		(0.6)		(0.6)
Income statement (releases)/charges		4.7		35.3		(1.6)		38.4
Amounts written-off	-	-	-	-	(0.9)	(0.9)	(0.9)	(0.9)
At 30 June 2020	5,362.7	3.2	1,596.9	41.1	73.7	70.9	7,033.3	115.2
Net carrying amount	5,359.5		1,555.8		2.8		6,918.0	
At 1 January 2019	641.0	-	68.0	4.0	46.0	33.0	755.0	37.0
2019 movements	2,840.0	1.0	10.0	(2.0)	42.6	48.6	(484.8)	47.6
At 30 June 2019	3,481.0	1.0	78.0	2.0	88.6	81.6	3,647.6	84.6
Net carrying amount	3,480.0		76.0		7.0		3,563.0	

Key points

- The unprecedented nature of the Covid-19 crisis has prompted a change of approach to formulating multiple economic scenarios. The incorporation of these stresses has resulted in a PD deterioration across models and sectors, leading to an increase in IFRS 9 Stage 2 exposures and associated ECL provisioning from a 12 month ECL to a lifetime ECL.
- Total ECL provisions increased by €37 million in the first half of the year driven by the new base case economic scenarios with a number of deals moving into Stage 2 and increased ECL on existing Stage 2 lending, as well as a downgrade of an individual significant exposure.

Notes

9. Contingent liabilities, commitments and guarantees

	30 June 2020 €m	31 December 2019 €m
Guarantees and assets pledged as collateral security	619	1,040
Other contingent liabilities	8	5
Standby facilities, credit lines and other commitments	6,903	7,343
Contingent liabilities and commitments	7,530	8,388

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.

Obligations with ABN AMRO Bank N.V.

Included within guarantees and assets pledged as collateral security as at 30 June 2020 is €0.6 billion (31 December 2019 – €0.7 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 2020, an amount of €1.0 billion on contingent liabilities and commitments were transferred from NatWest Bank Plc to NWM N.V. in relation to the Western European Corporate Portfolio. An amount of €0.3 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 that facilitate the smooth provision of services to NatWest Markets' customers. The arrangements include:

- The provision of a funded guarantee of up to €3.3 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 2020 the deposits amounted to €0.9 billion and the guarantee fees in the period were €3.5 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 2020 the exposure at default covered by the guarantees was approximately €0.4 billion of which €0.1 billion was funded. The guarantee fees in the period were €4.7 million.

10. Litigation, investigations and reviews

NWM N.V. and certain members of NatWest Group are party to legal proceedings and the subject of investigation and other regulatory and governmental action 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 proceedings and investigations, it is not possible to determine whether any loss is probable or to estimate reliably the amount of any loss, either as a direct consequence of the relevant proceedings and investigations or as a result of adverse impacts or restrictions on 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 investigations, 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.

Notes

10. Litigation, investigations and reviews continued

NatWest Group is involved in ongoing litigation, investigations and reviews that are not described below but are described on pages 99 to 105 in NatWest Group's H1 Results 2020. 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. On 31 March 2020, the bankruptcy court denied the trustee's request for leave to amend its complaint to include additional allegations against NWM N.V., holding that, even with the proposed amendments, the complaint would fail as a matter of law to state a valid claim against NWM N.V. The trustee has commenced an appeal of the bankruptcy court's decision. In the second action, filed in October 2011, the trustee seeks to recover an additional US$21.8 million. In November 2016, the bankruptcy court dismissed this case on international comity grounds, and that decision was appealed. In February 2019, the United States Court of Appeals for the Second Circuit reversed the bankruptcy court's decision and the case is now returning to the bankruptcy court for further proceedings.

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. On 13 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. (however, that dismissal is subject to potential appeal at a later date).

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., 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. will defend the claim, which has been transferred to the Florence courts. The matter remains at the preliminary hearing stage.

US Anti-Terrorism Act litigation

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.

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.

Notes

10. Litigation, investigations and reviews continued

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

Investigations and reviews

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, business conduct, competition/anti-trust, anti-bribery, anti-money laundering and sanctions regimes.

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

Any matters discussed or identified during such discussions and inquiries may result in, among other things, further inquiry or investigation, other action being taken by governmental and regulatory authorities, increased costs being incurred by 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 these events or circumstances 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.

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 €53 million (€57 million in H1 2019) for the activities it now performs for European clients on behalf of NWM Plc. The transfer pricing models designed for the different businesses will be included in our submission to the Dutch and UK taxation authorities for a bilateral Advance Pricing Agreement (APA). The APA submission is expected to be done in H2 2020.

Full details of the NWM N.V. Group's related party transactions for the year ended 31 December 2019 are included in the NatWest Markets N.V. 2019 Annual Report and Accounts.

12. Post balance sheet events

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

13. Date of approval

The interim results for the half year ended 30 June 2020 were approved by the Supervisory Board on 30 July 2020.

Risk factors

The following risks relating to the Covid-19 pandemic could individually or collectively have a material adverse impact on the business, operations, financial condition and strategy of NWM Group, including NWM N.V. Group, over the short, medium and/or long term. These risks supplement and heighten the related risks contained in the Risk Factors on pages 98-110 of NWM N.V. Group's 2019 Annual Report and Accounts.

The direct and indirect effects of the Covid-19 pandemic are having an adverse impact on NWM N.V. Group's business and results of operations, which is likely to be material if conditions worsen or are prolonged, and may affect its ability to meet its targets and achieve its strategic objectives.

During the first six months of 2020, the global rate of infection of the Covid-19 virus and the number of associated deaths increased at a rapid pace, and on 11 March 2020 the World Health Organization officially declared a pandemic. Many countries, including the UK and The Netherlands imposed strict social distancing measures and associated restrictions in an attempt to slow the spread of Covid-19. The short-term impact of Covid-19 has included sudden reductions in personal and commercial activity, increased unemployment and significant market volatility in asset prices, interest rates and foreign exchange rates, as well as physical disruption to global supply chains and working practices, all of which are having a major impact on the NWM Group and NWM N.V. Group's clients and have had a negative impact on the NWM Group's results for the six months ended 30 June 2020 and outlook (including those of the NWM N.V. Group).

In the UK, The Netherlands, Europe and the US, central banks, governments, regulators and legislatures have announced various forms of financial assistance for impacted businesses and individuals, and legal and regulatory initiatives, including further reductions in interest rates. There is no certainty as to the extent to which these measures may directly and indirectly mitigate negative impacts of the Covid-19 pandemic on the NWM N.V. Group and its clients, and the range of prudential regulatory forbearance has made planning and forecasting for the NWM N.V. Group, more complex, and may result in uncertainty impacting the risk profile of the NWM N.V. Group and/or that of the wider banking industry.

During the six months ended 30 June 2020, the NWM Group, including NWM N.V. Group, experienced elevated exposure to credit risk and demands on its funding, particularly from customers and borrowers drawing down upon committed credit facilities, of which a significant proportion was undrawn at 30 June 2020. If borrowers or counterparties default or suffer deterioration in credit, this would increase impairment charges, credit reserves, write-downs and regulatory expected loss. An increase in drawings upon committed credit facilities may also increase the NWM Group's RWAs, including those of the NWM N.V. Group. If the NWM Group and the NWM N.V. Group experience losses and a reduction in future profitability, this is likely to affect the recoverable value of fixed assets, including goodwill and deferred taxes, which may result in further write-downs.
In addition, the profound impact of the Covid-19 pandemic and the revised economic outlook may make achieving the cost reduction targets set by NWM Group (including NWM N.V. Group) as part of the NWM Refocusing more challenging and could require additional savings to be made in a manner that may increase certain operational risks and could impact productivity and competitiveness within the NWM N.V. Group

The Covid-19 pandemic has also caused significant market volatility which has increased NWM Group's and NWM N.V. Group's market risk, has caused RWA inflation and may result in increases to leverage exposure. Depending on the severity and duration of market volatility and the impact on capital and RWAs, NWM N.V. Group may be required to adapt its funding plan in order to satisfy its capital and funding requirements, which may have a material adverse effect on the NWM N.V. Group. In addition, impairments or other losses as well as increases to capital deductions may result in a decrease to NWM N.V. Group's capital base. If, as a result of the Covid-19 pandemic, NatWest Group plc is unable to issue securities externally as planned, this may have a negative impact on NWM N.V.'s current and forecast MREL position, particularly if NatWest Group plc is unable to downstream capital and/or funding to NWM N.V.. Furthermore, significant fluctuation in foreign currency exchange rates may affect capital deployed in NWM N.V.'s branches and joint arrangements, securities issued by NWM N.V. in foreign currencies or the respective values of assets, liabilities, income, RWAs, capital base, funding, liquidity, expenses and reported earnings. All of the factors described above may result in a material adverse effect on the NWM N.V. Group's business, financial condition, results of operations and prospects.

Countries around the globe are now taking varying approaches as to how and when they tighten or relax restrictions imposed in response to the Covid-19 pandemic. Experts have warned that further waves of infection can be expected which may result in additional periods during which restrictions are imposed in affected countries, at least until a vaccine or effective treatment can be developed and widely administered, which may take 12-18 months or longer. Once restrictions are relaxed, there is no certainty as to the path or length of time required to achieve economic recovery. The medium and long-term implications of the Covid-19 pandemic for NWM N.V. Group clients and The Netherlands and global economies and financial markets are uncertain, but if they continue or worsen they will have a material adverse effect on the NWM N.V. Group's financial results and operations in subsequent periods.

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 98-110 of NWM N.V. Group's 2019 Annual Report and Accounts which should be read together with NWM N.V. Group's other public disclosures. Any of the risks identified may have a material adverse effect on NWM N.V. Group's business, operations, financial condition or prospects.

Economic and political risk

- The direct and indirect effects of the Covid-19 pandemic are having an adverse impact on business, results of operations and outlook of NWM Group, including NWM N.V. Group, which is likely to be material if conditions worsen or are prolonged, and may affect its strategy, its ability to meet its targets and achieve its strategic objectives.
- The NWM N.V. Group faces increased political and economic risks and uncertainty in the European and global markets, including in respect of various forms of governmental, legal or regulatory financial assistance and/or stimulus designed to support an economic recovery (for example, temporary insolvency relief for distressed borrowers). There is also uncertainty as to whether the mandated governmental schemes (for example the package of new measures designed to save jobs and the economy announced by the Dutch government earlier this year) may be extended, discontinued or changed. Any of the above may have a negative impact on the economy and on NWM N.V. Group.
- Prevailing uncertainty regarding the terms of the UK's withdrawal from the European Union has adversely affected and will continue to affect the NWM Plc (NWM N.V.'s parent entity) and NatWest Group plc (NWM N.V.'s ultimate parent) and may have an indirect effect on the NWM N.V. Group.
- NWM Group expects to face significant risks in connection with climate change and the transition to a low carbon economy.
- Changes in interest rates have affected and will continue to affect NWM N.V. Group's business and results. Further decreases in interest rates and/or continued sustained low or negative interest rates could adversely affect NWM N.V. Group's business, results of operations and outlook.
- HM Treasury (or UKGI on its behalf) could exercise a significant degree of influence over NatWest Group and NWM N.V. Group is ultimately controlled by NatWest Group plc.

Strategic risk

- NatWest Group has announced a new strategy that will require changes in NWM Group's business (including the NWM N.V. Group), including reductions in capital allocated to NWM Group, its cost base and complexity. As a result of the direct and indirect effects of the Covid-19 pandemic, achieving these reductions in the business of the NWM Group, including the NWM N.V. Group, in the current environment may be more challenging and such reductions may not be achieved in a timely manner or at all, which may require management actions by NatWest Group, NWM Group or NWM N.V. Group. This entails material execution, commercial and operational risks for NWM Group, including NWM N.V. Group.
- NWM Group may not be able to successfully implement the NWM Refocusing and it may not achieve its targets and NWM Group may not ultimately result in a viable, competitive business.
- NatWest Group has announced a new Purpose-led Strategy which will further influence the NWM Refocusing and the go-forward strategy of NWM N.V. Group.
- NatWest Group's Purpose-led Strategy includes one area of focus on climate change which entails significant execution risk and is likely to require material changes to the business model of NatWest Group (including NWM N.V. Group) over the next ten years.

Financial resilience risk

- NWM Group may not meet the targets it communicates to the market, generate returns or implement its strategy effectively, including as a result of the direct and indirect effects of the Covid-19 pandemic.
- NWM N.V. is the NatWest Group's banking and trading entity located in the Netherlands. NWM N.V. has recently repurposed its banking license, and the NWM N.V. Group may be subject to further changes. In order to best serve its customers in an efficient manner and in light of Brexit planning, and consistent with its strategy, NWM Group expects that NatWest Group's Western European corporate portfolio, principally including term funding and revolving credit facilities, may remain in NatWest Bank Plc and not be transferred to NWM Group. Some or all of the portfolio already held in NWM Group may be transferred to NatWest Bank Plc. The timing and quantum of such transfers is uncertain.
- NWM N.V. Group is reliant on access to the global capital markets to meet its funding requirements. The inability to do so may adversely affect NWM N.V. Group.
- 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 and NWM N.V. Group may be required to adapt its funding plan.
- NWM N.V. may not manage its capital, liquidity or funding effectively which could trigger the execution of certain management actions or recovery options.

Risk factors

Summary of principal risks and uncertainties continued

- 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. subsidiaries) 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.
- 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 which has increased materially particularly as a result of the direct and indirect effects of the Covid-19 pandemic on borrower counterparties and other borrowers.
- 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. Eligible Liabilities).
- NatWest Group is subject to Bank of England oversight in respect of resolution, and NatWest N.V. Group could be adversely affected should the Bank of England deem NatWest Group's preparations to be inadequate.

Operational and IT resilience risk

- NWM N.V. Group is subject to increasingly sophisticated and frequent cyberattacks, which could adversely affect NWM N.V. Group.
- NWM N.V. Group's operations and strategy are highly dependent on the effective use and accuracy of data to support and improve its operations and deliver its strategy.
- Operational risks are inherent in NWM N.V. Group's businesses and have been heightened as a result of the Covid-19 pandemic.
- 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.
- 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. The inability to do so could affect on NWM N.V. Group's reputation, business, results of operations and outlook.
- Due to the fact that most of the employees of NWM Group and NWM N.V. Group are currently working remotely as a result of the Covid-19 pandemic, there is increased exposure to conduct, operational and other risks which may place additional pressure on the ability of NWM N.V. Group to maintain effective internal controls and governance frameworks.
- 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.
- The NWM N.V. Group and NWM Plc are subject to a number of litigation matters, regulatory and governmental actions and investigations as well as associated 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

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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 comprises NWM N.V. and its subsidiary and associated undertakings. The term 'RBSH Group' comprises RBSH N.V. and its only subsidiary, NWM N.V.. With effect from 29 November 2019, RBSH N.V. became a wholly-owned subsidiary of NatWest Markets Plc (NWM Plc). The term 'NWM Group' comprises NWM Plc and its subsidiary and associated undertakings.

NatWest Group plc is 'the ultimate holding company'. The Royal Bank of Scotland Group plc or the 'parent company' was renamed NatWest Group plc on 22 July 2020. The term 'NatWest Group' comprises 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 abbreviations '€m' and '€bn' represent millions and thousands of millions of euros, respectively. Reference to '£' is to pounds sterling. The abbreviations '£m' and '£bn' represent millions and thousands of millions of pounds, respectively. Reference to '$' is to United States of America (US) dollars. The abbreviations '$m' and '$bn' represent millions and thousands of millions of dollars respectively.

Cautionary statement regarding forward-looking statements

This document contains forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995, such as statements that include, without limitation, the words 'expect', 'estimate', 'project', 'anticipate', 'commit', 'believe', 'should', 'intend', 'plan', 'could', 'probability', 'risk', 'Value-at-Risk (VaR)', 'target', 'goal', 'objective', 'may', 'endeavour', 'outlook', 'optimistic', 'prospects' and similar expressions or variations on these expressions. These statements concern or may affect future matters, such as 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, NWM N.V.'s regulatory capital position and related requirements, its financial position, profitability and financial performance (including financial, capital and operational targets), its access to adequate sources of liquidity and funding, increasing competition from new incumbents and disruptive technologies, its exposure to third party risks 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, legislative, political, fiscal and regulatory developments, accounting standards, competitive conditions, technological developments, interest and exchange rate fluctuations, general economic and political conditions and the uncertainty surrounding the Covid-19 pandemic and its impact on NWM N.V. Group. 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. Group's 2019 Annual Report and Accounts (ARA) and NWM N.V.'s Interim Results for H1 2020 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 2020 and for the six month period then ended.
- the interim report, for the six month period ending on 30 June 2020, 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.

NatWest Markets N.V. continues to implement its plan to serve our European Economic Area (EEA) customers when the UK leaves the European Union, in the event that there is a loss of access to the EU Single Market.

Amsterdam
30 July 2020

Cornelis Visscher
Chief Financial Officer

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