



NatWest Markets Group

Q3 2021

Interim Management Statement

NatWest Markets Group (NWM Group) Results for Q3 2021

Growing a more sustainable business

We have supported customers in navigating challenging market conditions and continued to deliver an integrated customer proposition across NatWest Group. We have maintained a focus on product innovation, investing in our people, and on growing our expertise in areas that matter most to our customers. However, the ongoing re-shaping of the Fixed Income business continued to impact our results. Our strong performance in Climate and Sustainable Funding and Financing has continued, and as at the end of Q3 we had delivered £6.9 billion year to date (full year 2020: £7.2 billion), including £0.5 billion in Q3 2021 which will contribute towards the new NatWest Group target of £100 billion between 1 July 2021 and the end of 2025.

Financial review

NWM Group reported a loss of £164 million for Q3 2021, compared with a loss of £58 million in Q2 2021 and a profit of £35 million in Q3 2020. Total income decreased to £92 million in Q3 2021, reflecting continued weakness in Fixed Income which was impacted by the re-shaping of the business. Operating expenses increased to £297 million, largely due to the litigation and conduct costs credit recognised in the prior quarter which reflected progress in closing legacy matters.

Financial performance

- Total income was £92 million in Q3 2021, compared with £108 million in Q2 2021 and £275 million in Q3 2020. Income excluding asset disposals/strategic risk reduction and own credit adjustments decreased to £102 million in Q3 2021, from £145 million in Q2 2021 and £321 million in Q3 2020, driven by continued weakness in Fixed Income which was impacted by the re-shaping of the business.
- Operating expenses of £297 million in Q3 2021 were up £89 million from £208 million in Q2 2021, largely due to the litigation and conduct costs credit recognised in the prior quarter which reflected progress in closing legacy matters, and up £33 million from £264 million in Q3 2020, largely due to higher strategic costs and litigation and conduct costs in the current quarter. Operating expenses for the nine months ended 30 September 2021, excluding strategic costs and litigation and conduct costs, of £669 million were down £138 million compared with the prior year, primarily reflecting ongoing progress on underlying cost reductions.
- NWM Group's total assets and liabilities decreased by £60.4 billion and £59.1 billion to £212.7 billion and £204.7 billion respectively at 30 September 2021, compared with 31 December 2020. The decreases primarily reflect lower derivative fair values, largely driven by increases in interest rates across major currencies.
- On 28 October 2021, the NWM Plc Board approved an interim dividend of £250 million, to be declared and payable to NatWest Group plc on 29 October 2021. There has been no adjustment to the Q3 2021 condensed consolidated financial statements, however a £250 million foreseeable dividend deduction has been applied to the Q3 2021 regulatory capital position.

Capital and leverage

- Total NWM Plc RWAs were £23.4 billion at 30 September 2021, compared with £24.6 billion at 30 June 2021 and £25.6 billion at 31 December 2020. Following the announcement of GBP LIBOR cessation in March 2021, market risk RWAs had become elevated by £2.5 billion at 30 June 2021 as a result of including modelled GBP LIBOR basis risk post 4 January 2022. Regulatory approval was obtained in July 2021 to update the VAR model which removed this impact in Q3 2021, contributing to the decrease compared to 30 June 2021. The decrease in market risk RWAs for the quarter was partially offset by an increase in credit risk RWAs, driven by new syndication deals. The year-to-date decrease in RWAs reflects lower levels of counterparty credit, market and operational risk.
- NWM Plc's Common Equity Tier 1 (CET1) ratio was 19.4% at 30 September 2021, compared with 20.2% at 30 June 2021 and 21.7% at 31 December 2020. The decrease in the year reflected the impact of dividends paid to NatWest Group plc and other reserve movements, partially offset by the reduction in RWAs.
- Total MREL for NWM Plc at 30 September 2021 was £10.2 billion, or 43.5% of RWAs, down from £12.7 billion or 49.6% of RWAs at 31 December 2020. The reduction in the year was largely due to the redemption of a \$1.5 billion internal instrument issued to NatWest Group plc and the reduction in CET1 capital.

Liquidity and funding

- NWM Plc's liquidity portfolio at 30 September 2021 was £16.2 billion with an LCR of 241% (31 December 2020 - £19.4 billion with LCR 268%).
- NWM Plc issued £3.4 billion of term senior unsecured debt securities in the nine months ended 30 September 2021, including two benchmark transactions under the US MTN programme amounting to \$2.55 billion of notes, a benchmark transaction under the EMTN programme of €1.25 billion of notes, and other private placements.

Outlook ⁽¹⁾

We retain the outlook guidance provided in the 2021 Interim Results document except we no longer expect to achieve the majority of the remaining RWA reduction towards the medium term target this year.

(1) The targets, expectations and trends discussed in this section represent management's current expectations and are subject to change, including as a result of the factors described in the Risk Factors section on pages 156 to 172 of the NatWest Markets Plc 2020 Annual Report and Accounts, and the Summary Risk Factors set out on pages 48 and 49 of the NatWest Markets Plc 2021 Interim Results. These statements constitute forward-looking statements. Refer to Forward-looking statements in this announcement.

Financial review

The segmental analysis of key income statement lines for the nine months ended 30 September 2021 is set out below. Commentary refers to the tables below as well as the consolidated income statement shown on page 7.

	Nine months ended					
	30 September 2021			30 September 2020		
	NatWest Markets £m	Central items & other £m	Total £m	NatWest Markets £m	Central items & other £m	Total £m
Income statement						
Net interest income	(5)	-	(5)	(59)	2	(57)
Non-interest income	390	3	393	1,104	37	1,141
Total income	385	3	388	1,045	39	1,084
Strategic costs	(141)	(8)	(149)	(164)	20	(144)
Litigation and conduct costs	-	41	41	(4)	(123)	(127)
Other operating expenses	(669)	-	(669)	(834)	27	(807)
Operating expenses	(810)	33	(777)	(1,002)	(76)	(1,078)
Operating (loss)/profit before impairments	(425)	36	(389)	43	(37)	6
Impairment releases/(losses)	19	-	19	(38)	(4)	(42)
Operating (loss)/profit before tax	(406)	36	(370)	5	(41)	(36)
Tax credit/(charge)			87			(58)
Loss for the period			(283)			(94)
Income						
Fixed Income (1,2,3,4)	5	-	5	528	-	528
Currencies (1,3)	306	-	306	462	-	462
Capital Markets (1,2,3)	256	-	256	294	-	294
Capital Management Unit & other (1,4,5)	20	3	23	(43)	39	(4)
Income excluding Revenue share, Asset disposals and OCA	587	3	590	1,241	39	1,280
Revenue share paid to other NatWest Group segments	(153)	-	(153)	(140)	-	(140)
Income excluding Asset disposals and OCA	434	3	437	1,101	39	1,140
Asset disposals/Strategic risk reduction (6)	(52)	-	(52)	(75)	-	(75)
Own credit adjustments (OCA)	3	-	3	19	-	19
Total income	385	3	388	1,045	39	1,084

- (1) Income of £(42) million, £(8) million and £(14) million reported within Fixed Income, Currencies and Capital Markets respectively at 30 September 2020 relates to business that was subsequently transferred to Capital Management Unit during 2020.
- (2) Income of £33 million reported within Capital Markets at 30 September 2020 relates to business that was subsequently transferred to Fixed Income during 2020.
- (3) Income of £59 million and £8 million reported within Fixed Income at 30 September 2020 relates to business that was subsequently transferred to Currencies and Capital Markets respectively during 2020.
- (4) Fixed Income includes income of £(7) million (30 September 2020: £48 million) relating to miscellaneous balances that from Q2 2021 have been included in Capital Management Unit & other.
- (5) Capital Management Unit was set up in Q3 2020 to manage the capital usage and optimisation across all parts of NatWest Markets. The income shown here relates to legacy assets and other miscellaneous balances. Other relates to income booked to the Central items & other operating segment.
- (6) Asset disposals/Strategic risk reduction relates to the costs of exiting positions, which includes changes in carrying value to align to the expected exit valuation, and the impact of risk reduction transactions entered into, in respect of the strategic announcements of 14 February 2020.

- **Net interest income** of £5 million net interest expense for the nine months ended 30 September 2021 decreased by £52 million compared with £57 million net interest expense in the comparative period, reflecting reduced funding costs for the business driven by the ongoing repayment of legacy debt during the period.
- **Non-interest income** of £393 million decreased by £748 million compared with £1,141 million in the nine months ended 30 September 2020, reflecting increased customer activity in the comparative period in response to the COVID-19 pandemic, in addition to weaker performance in Fixed Income which was impacted by the re-shaping of the business.
- **Operating expenses** were £777 million for the nine months ended 30 September 2021, a decrease of £301 million compared with £1,078 million in the comparative period. Litigation and conduct costs of £41 million credit reflects continued progress in closing legacy matters during the period and were £168 million lower than £127 million in the nine months ended 30 September 2020. Strategic costs were £149 million for the period, compared with £144 million in the nine months ended 30 September 2020, as work continued on the refocusing of NWM Group. Other operating expenses decreased to £669 million from £807 million in the comparative period, primarily reflecting ongoing progress on underlying cost reductions.
- **Impairment releases** were £19 million for the nine months ended 30 September 2021, largely driven by credit improvements in the period and releases on individual IFRS 9 Stage 2 and Stage 3 exposures, compared with a charge of £42 million in the comparative period when ECL provisions increased at the onset of the COVID-19 pandemic.
- **NatWest Markets operating loss before tax** was £406 million compared with a profit of £5 million for the nine months ended 30 September 2020. Income excluding asset disposals and own credit adjustments of £434 million was £667 million lower than in the comparative period, reflecting increased customer activity in the comparative period as the market reacted to COVID-19, in addition to weaker performance in Fixed Income which was impacted by the re-shaping of the business. Operating expenses of £810 million were £192 million lower compared with £1,002 million in the nine months ended 30 September 2020, largely driven by a decrease in other operating expenses reflecting continued progress on underlying cost reductions.
- **Central items & other operating profit before tax** was £36 million, compared with a £41 million operating loss for the nine months ended 30 September 2020. Litigation and conduct costs of £41 million credit in the current period reflects continued progress in closing legacy matters, and were £164 million lower than in the nine months ended 30 September 2020.

Financial review

The segmental analysis of key income statement lines for the quarter ended 30 September 2021 is set out below. Commentary refers to the tables below as well as the consolidated income statement shown on page 7.

	Q3 2021			Q2 2021			Q3 2020		
	NatWest Markets £m	Central items & other £m	Total £m	NatWest Markets £m	Central items & other £m	Total £m	NatWest Markets £m	Central items & other £m	Total £m
Income statement									
Net interest income	(1)	-	(1)	3	-	3	(20)	2	(18)
Non-interest income	96	(3)	93	99	6	105	256	37	293
Total income	95	(3)	92	102	6	108	236	39	275
Strategic costs	(52)	(2)	(54)	(59)	(4)	(63)	(59)	27	(32)
Litigation and conduct costs	(2)	(25)	(27)	2	79	81	(2)	(12)	(14)
Other operating expenses	(214)	(2)	(216)	(226)	-	(226)	(224)	6	(218)
Operating expenses	(268)	(29)	(297)	(283)	75	(208)	(285)	21	(264)
Operating (loss)/profit before impairments	(173)	(32)	(205)	(181)	81	(100)	(49)	60	11
Impairment releases	3	-	3	10	-	10	2	1	3
Operating (loss)/profit before tax	(170)	(32)	(202)	(171)	81	(90)	(47)	61	14
Tax credit			38			32			21
(Loss)/profit for the period			(164)			(58)			35
Income									
Fixed Income (1,2,3)	(38)	-	(38)	5	-	5	125	-	125
Currencies (2)	101	-	101	87	-	87	126	-	126
Capital Markets (2)	90	-	90	92	-	92	75	-	75
Capital Management Unit & other (1,3,4)	7	(3)	4	5	6	11	1	39	40
Income excluding Revenue share, Asset disposals and OCA	160	(3)	157	189	6	195	327	39	366
Revenue share paid to other NatWest Group segments	(55)	-	(55)	(50)	-	(50)	(45)	-	(45)
Income excluding Asset disposals and OCA	105	(3)	102	139	6	145	282	39	321
Asset disposals/Strategic risk reduction (5)	(12)	-	(12)	(36)	-	(36)	(12)	-	(12)
Own credit adjustments (OCA)	2	-	2	(1)	-	(1)	(34)	-	(34)
Total income	95	(3)	92	102	6	108	236	39	275

(1) Income of £(2) million reported within Fixed Income at Q3 2020 relates to business that was subsequently transferred to Capital Management Unit during 2020.

(2) Income of £12 million and £3 million reported within Fixed Income at Q3 2020 relates to business that was subsequently transferred to Currencies and Capital Markets respectively during 2020.

(3) Fixed Income for Q3 2020 includes income of £39 million relating to miscellaneous balances that from Q2 2021 have been included in Capital Management Unit & other.

(4) Capital Management Unit was set up in Q3 2020 to manage capital usage and optimisation across all parts of NatWest Markets. The income shown here relates to legacy assets and other miscellaneous balances. Other relates to income booked to the Central items & other operating segment.

(5) Asset disposals/Strategic risk reduction relates to the costs of exiting positions, which includes changes in carrying value to align to the expected exit valuation, and the impact of risk reduction transactions entered into, in respect of the strategic announcements of 14 February 2020.

- **Net interest income** was a net expense of £1 million in Q3 2021 compared with net income of £3 million in Q2 2021 and net expense of £18 million in Q3 2020.
- **Non-interest income** of £93 million decreased by £12 million compared with £105 million in Q2 2021, reflecting continued weak performance in Fixed Income which was impacted by the re-shaping of the business, and by £200 million compared with £293 million in Q3 2020.
- **Operating expenses** were £297 million in Q3 2021, compared with £208 million in Q2 2021 and £264 million in Q3 2020. Strategic costs were £54 million in Q3 2021, compared with £63 million in Q2 2021 and £32 million in Q3 2020, as work continued on the refocusing of NWM Group. Litigation and conduct costs were £27 million in Q3 2021, up £108 million from the £81 million credit recognised in Q2 2021 which reflected continued progress in closing legacy matters, and up £13 million from £14 million in Q3 2020. Other operating expenses reduced to £216 million in Q3 2021 from £226 million in Q2 2021 and £218 million in Q3 2020, reflecting ongoing progress on underlying cost reductions.
- **NatWest Markets operating loss before tax** was £170 million in Q3 2021, compared with £171 million in Q2 2021 and £47 million in Q3 2020. Income excluding asset disposals and own credit adjustments of £105 million was down compared with £139 million in Q2 2021 and £282 million in Q3 2020, reflecting continued weak performance in Fixed Income which was impacted by the re-shaping of the business. Operating expenses of £268 million in Q3 2021 were lower than £283 million in Q2 2021 and £285 million in Q3 2020, largely due to lower other operating expenses, reflecting ongoing progress on underlying cost reductions.
- **Central items & other operating loss before tax** was £32 million, compared with a profit of £81 million in Q2 2021 which was largely driven by litigation and conduct costs credit reflecting ongoing progress in closing legacy matters, and a profit of £61 million in Q3 2020 which included income relating to the transfer of a service subsidiary to NatWest Holdings Limited and various expense credits.

Financial review

Balance sheet profile as at 30 September 2021

NWM Group's balance sheet profile is summarised below. Commentary refers to the table below as well as the consolidated balance sheet on page 8.

	Assets		Liabilities	
	30 September 2021 £bn	31 December 2020 £bn	30 September 2021 £bn	31 December 2020 £bn
Cash and balances at central banks	15.7	15.8		
Securities	29.9	29.2	29.1	26.8
Reverse repos (1)	23.1	19.4	21.5	19.0
Derivative cash collateral given (3)	12.1	18.5	17.6	23.2
Other trading assets	1.2	1.6	2.5	3.3
Total trading assets	66.3	68.7	70.7	72.3
Loans - amortised cost	9.0	9.4	4.4	4.4
Settlement balances	8.1	2.3	7.8	2.2
Amounts due from holding company and fellow subsidiaries	1.6	1.6	6.1	8.1
Other financial assets	8.2	9.0	18.0	18.2
Other assets	0.8	0.7	1.0	1.3
Funded assets	109.7	107.5	108.0	106.5
Derivative assets	103.0	165.6	96.7	157.3
Total assets	212.7	273.1	204.7	263.8
			20.1	20.6
			9.1	9.5

- (1) Comprises bank reverse repos of £3.7 billion (31 December 2020 – £2.2 billion) and customer reverse repos of £19.4 billion (31 December 2020 – £17.2 billion).
- (2) Comprises bank repos of £1.5 billion (31 December 2020 – £1.0 billion) and customer repos of £20.0 billion (31 December 2020 – £18.0 billion).
- (3) Comprises derivative cash collateral given relating to banks of £4.8 billion (31 December 2020 – £7.5 billion) and customers of £7.3 billion (31 December 2020 – £11.0 billion).
- (4) Comprises derivative cash collateral received relating to banks of £8.1 billion (31 December 2020 – £11.8 billion) and customers of £9.5 billion (31 December 2020 – £11.4 billion).
- (5) Predominantly comprises bank deposits (excluding repos), debt securities in issue and third party subordinated liabilities.

- **Total assets and liabilities** decreased by £60.4 billion and £59.1 billion to £212.7 billion and £204.7 billion respectively at 30 September 2021, compared with £273.1 billion and £263.8 billion at 31 December 2020. The decreases primarily reflect lower derivative fair values, largely driven by increases in interest rates across major currencies. Funded assets, which exclude derivatives, increased by £2.2 billion to £109.7 billion.
- **Trading assets** were down by £2.4 billion to £66.3 billion at 30 September 2021, with a decrease in derivative cash collateral posted partially offset by increases in securities and reverse repos driven by customer flows and the management of balance sheet within limits. **Trading liabilities** decreased by £1.6 billion to £70.7 billion, with a decrease in derivative cash collateral received partially offset by increases in short positions and repos.
- **Derivative assets and derivative liabilities** were down £62.6 billion to £103.0 billion and £60.6 billion to £96.7 billion respectively at 30 September 2021, largely driven by increases in interest rates across major currencies since year end 2020.
- **Settlement balance assets and liabilities** were up £5.8 billion and £5.6 billion to £8.1 billion and £7.8 billion respectively, due to increased trading compared with the seasonally lower levels of customer activity leading up to 31 December 2020.
- **Loans to customers – amortised cost** were down £1.3 billion to £7.1 billion, largely reflecting liquidity management actions.
- **Other financial liabilities** decreased by £0.2 billion to £18.0 billion (31 December 2020 – £18.2 billion), as new issuance was offset by maturities in the period. The balance at 30 September 2021 includes £11.7 billion of medium-term notes issued.
- **Owners' equity** was down £1.4 billion to £8.0 billion (31 December 2020 – £9.4 billion), driven by interim dividend payments to NatWest Group plc totalling £0.8 billion, and other reserve movements in the period.

Capital, liquidity and funding risk

Capital, RWAs and leverage

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

	30 September 2021 %	30 June 2021 %	31 December 2020 %
Capital adequacy ratios			
CET1	19.4	20.2	21.7
Tier 1	22.3	23.9	25.2
Total	27.6	28.9	30.3
Total MREL	43.5	43.8	49.6

	£m	£m	£m
Capital (1)			
CET1 (2)	4,553	4,969	5,547
Tier 1	5,231	5,864	6,433
Total	6,463	7,100	7,753
Total MREL (3)	10,191	10,771	12,679

Risk-weighted assets

Credit risk	7,111	5,941	6,902
Counterparty credit risk	7,395	7,424	8,130
Market risk	6,919	9,197	8,150
Operational risk	2,020	2,020	2,382
Total RWAs	23,445	24,582	25,564

Leverage (4)

CRR leverage exposure (£m)	122,124	124,600	123,927
Tier 1 capital (£m)	5,231	5,864	6,433
CRR leverage ratio (%)	4.3	4.7	5.2

Liquidity and funding

	30 September 2021	30 June 2021	31 December 2020
Liquidity coverage ratio (LCR) (%)	241	227	268
Liquidity portfolio (£bn)	16.2	17.7	19.4
Total wholesale funding (£bn) (5)	20.1	20.7	20.6
Total funding including repo (£bn)	70.0	71.6	75.9

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

(2) CET1 includes £250 million foreseeable ordinary dividend deduction.

(3) Includes senior internal debt instruments issued to NatWest Group plc with a regulatory value of £3.8 billion (30 June 2021 - £3.7 billion, 31 December 2020 - £4.9 billion).

(4) Leverage exposure is broadly aligned to the accounting value of on and off-balance sheet exposures albeit subject to specific adjustments for derivatives, securities financing positions and off-balance sheet exposures.

(5) Predominantly comprises bank deposits (excluding repos), debt securities in issue and third party subordinated liabilities.

Condensed consolidated income statement for the period ended 30 September 2021 (unaudited)

	Nine months ended		Quarter ended		
	30 September 2021	30 September 2020	30 September 2021	30 June 2021	30 September 2020
	£m	£m	£m	£m	£m
Interest receivable	258	428	79	81	152
Interest payable	(263)	(485)	(80)	(78)	(170)
Net interest income	(5)	(57)	(1)	3	(18)
Fees and commissions receivable	194	411	48	69	134
Fees and commissions payable	(81)	(348)	(19)	(26)	(146)
Income from trading activities	300	1,026	74	53	250
Other operating income	(20)	52	(10)	9	55
Non-interest income	393	1,141	93	105	293
Total income	388	1,084	92	108	275
Staff costs	(370)	(519)	(118)	(118)	(142)
Premises and equipment	(59)	(88)	(22)	(18)	(13)
Other administrative expenses	(333)	(454)	(152)	(67)	(106)
Depreciation and amortisation	(15)	(17)	(5)	(5)	(3)
Operating expenses	(777)	(1,078)	(297)	(208)	(264)
(Loss)/profit before impairment releases/(losses)	(389)	6	(205)	(100)	11
Impairment releases/(losses)	19	(42)	3	10	3
Operating (loss)/profit before tax	(370)	(36)	(202)	(90)	14
Tax credit/(charge)	87	(58)	38	32	21
(Loss)/profit for the period	(283)	(94)	(164)	(58)	35
Attributable to:					
Ordinary shareholders	(369)	(79)	(180)	(112)	17
Paid-in equity holders	47	51	16	15	17
Non-controlling interests	39	(66)	-	39	1
	(283)	(94)	(164)	(58)	35

Condensed consolidated statement of comprehensive income for the period ended 30 September 2021 (unaudited)

	Nine months ended		Quarter ended		
	30 September 2021	30 September 2020	30 September 2021	30 June 2021	30 September 2020
	£m	£m	£m	£m	£m
(Loss)/profit for the period	(283)	(94)	(164)	(58)	35
Items that do not qualify for reclassification					
Remeasurement of retirement benefit schemes	-	(3)	1	-	-
Changes in fair value of credit in financial liabilities designated at fair value through profit or loss (FVTPL) due to own credit risk	(29)	20	(4)	(18)	(63)
Fair value through other comprehensive income (FVOCI) financial assets	(2)	(152)	(1)	(4)	24
Tax	5	17	1	5	14
	(26)	(118)	(3)	(17)	(25)
Items that do qualify for reclassification					
FVOCI financial assets	(3)	(7)	5	(8)	11
Cash flow hedges	(157)	132	(54)	(13)	(22)
Currency translation	(93)	174	19	26	(84)
Tax	21	(38)	14	(16)	4
	(232)	261	(16)	(11)	(91)
Other comprehensive (loss)/income after tax	(258)	143	(19)	(28)	(116)
Total comprehensive (loss)/income for the period	(541)	49	(183)	(86)	(81)
Attributable to:					
Ordinary shareholders	(631)	49	(199)	(144)	(100)
Paid-in equity holders	47	51	16	15	17
Non-controlling interests	43	(51)	-	43	2
	(541)	49	(183)	(86)	(81)

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

	30 September 2021 £m	31 December 2020 £m
Assets		
Cash and balances at central banks	15,743	15,771
Trading assets	66,299	68,689
Derivatives	103,026	165,619
Settlement balances	8,138	2,296
Loans to banks - amortised cost	1,877	1,003
Loans to customers - amortised cost	7,074	8,444
Amounts due from holding company and fellow subsidiaries	1,585	1,587
Other financial assets	8,150	9,041
Other assets	769	688
Total assets	212,661	273,138
Liabilities		
Bank deposits	2,156	1,808
Customer deposits	2,214	2,618
Amounts due to holding company and fellow subsidiaries	6,120	8,134
Settlement balances	7,792	2,248
Trading liabilities	70,696	72,252
Derivatives	96,651	157,332
Other financial liabilities	18,042	18,170
Other liabilities	1,042	1,234
Total liabilities	204,713	263,796
Equity		
Owners' equity	7,951	9,388
Non-controlling interests	(3)	(46)
Total equity	7,948	9,342
Total liabilities and equity	212,661	273,138

Condensed consolidated statement of changes in equity for the period ended 30 September 2021 (unaudited)

	Share capital and share premium £m	Paid-in equity £m	Retained earnings £m	Other reserves* £m	Total owners' equity £m	Non controlling interests £m	Total equity £m
At 1 January 2021	2,159	904	5,969	356	9,388	(46)	9,342
(Loss)/profit attributable to ordinary shareholders and paid-in equity holders	-	-	(322)	-	(322)	39	(283)
Other comprehensive income							
- Changes in fair value of credit in financial liabilities designated at FVTPL due to own credit risk	-	-	(29)	-	(29)	-	(29)
- Unrealised (losses)/gains: FVOCI and equity shares	-	-	-	(6)	(6)	4	(2)
- Unrealised losses: cash flow hedges	-	-	-	(162)	(162)	-	(162)
- Foreign exchange reserve movement	-	-	-	(97)	(97)	-	(97)
- Amounts transferred from equity to earnings	-	-	-	6	6	-	6
- Tax	-	-	5	21	26	-	26
Ordinary share dividends paid	-	-	(750)	-	(750)	-	(750)
Preference share and paid-in equity dividends paid	-	-	(47)	-	(47)	-	(47)
Redemption of preference shares	187	-	(188)	-	(1)	-	(1)
Share-based payments	-	-	(55)	-	(55)	-	(55)
At 30 September 2021	2,346	904	4,583	118	7,951	(3)	7,948

	30 September 2021 £m
Attributable to:	
Ordinary shareholders	7,047
Paid-in equity holders	904
Non-controlling interests	(3)
	7,948

*Other reserves consist of:

FVOCI reserve	29
Cash flow hedging reserve	71
Foreign exchange reserve	18
	118

Notes

1. Basis of preparation

The condensed consolidated financial statements should be read in conjunction with NatWest Markets Plc 2020 Annual Report and Accounts which were prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006.

Going concern

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

2. Accounting policies

NWM Group's principal accounting policies are as set out on pages 93 to 97 of the NatWest Markets Plc 2020 Annual Report and Accounts. Changes to accounting policies from 1 January 2021 had no material effect on NatWest Markets Plc accounts.

Critical accounting policies and key sources of estimation uncertainty

The judgements and assumptions that are considered to be the most important to the portrayal of NWM Group's financial condition are those relating to deferred tax, fair value of financial instruments, loan impairment provisions and provisions for liabilities and charges. These critical accounting policies and judgements are referenced on pages 96 and 97 of the NatWest Markets Plc 2020 Annual Report and Accounts. Estimation uncertainty has been affected by the COVID-19 pandemic. Management's consideration of this source of uncertainty is outlined in the relevant sections of NatWest Markets Plc 2020 Annual Report and Accounts, including the ECL estimate for the period in the Risk and capital management section contained in the NatWest Markets Plc 2020 Annual Report and Accounts.

It was announced in the UK Government's Budget on 27 October 2021 that the UK banking surcharge will decrease from 8% to 3% from 1 April 2023. This change is expected to be enacted in 2022. The resulting change to the net deferred tax liability position in NatWest Markets is not expected to be material.

Information used for significant estimates

The COVID-19 pandemic has continued to cause significant economic and social disruption. Key financial estimates are based on a range of anticipated future economic conditions described by internally developed scenarios. Measurement of valuation reserves and expected credit losses are highly sensitive to reasonably possible changes in those anticipated conditions. Other reasonably possible assumptions about the future include a prolonged financial effect of the COVID-19 pandemic on the economy of the UK and other countries. Changes in judgements and assumptions could result in a material adjustment to those estimates in the next reporting periods, refer to the NatWest Markets Plc Risk factors in the 2020 Annual Report and Accounts.

Notes

3. Trading assets and liabilities

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

	30 September 2021 £m	31 December 2020 £m
Assets		
Loans		
- Reverse repos	23,070	19,404
- Collateral given	12,053	18,459
- Other loans	1,248	1,611
Total loans	36,371	39,474
Securities		
Central and local government		
- UK	5,135	4,184
- US	2,544	5,149
- Other	18,244	16,436
Financial institutions and Corporate	4,005	3,446
Total securities	29,928	29,215
Total	66,299	68,689
Liabilities		
Deposits		
- Repos	21,538	19,036
- Collateral received	17,582	23,226
- Other deposits	1,493	1,803
Total deposits	40,613	44,065
Debt securities in issue	1,007	1,408
Short positions	29,076	26,779
Total	70,696	72,252

4. Other financial liabilities

	30 September 2021 £m	31 December 2020 £m
Customer deposits - designated as at fair value through profit or loss	728	796
Debt securities in issue		
- designated as at fair value through profit or loss	1,056	1,607
- amortised cost	15,197	14,662
Subordinated liabilities		
- designated as at fair value through profit or loss	747	793
- amortised cost	314	312
Total	18,042	18,170

Notes

5. Amounts due to holding company and fellow subsidiaries

	30 September 2021 £m	31 December 2020 £m
Liabilities		
Bank deposits - amortised cost	129	145
Customer deposits - amortised cost	79	144
Trading liabilities	387	636
Other financial liabilities - subordinated liabilities	1,476	1,753
MREL instruments issued to NatWest Group plc	3,890	5,181
Other liabilities	159	275
Total	6,120	8,134

6. Litigation and regulatory matters

NatWest Markets Plc's Interim Results 2021, issued on 30 July 2021, included disclosures about NWM Group's litigation and regulatory matters in Note 12. Set out below are the material developments in those matters since publication of the Interim Results 2021.

Litigation

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

The State of New Mexico, on behalf of certain state agencies, has been pursuing claims in New Mexico state court against NatWest Markets Securities Inc. (NWMSI) concerning certain historical RMBS offerings that allegedly involved materially false or misleading statements and/or omissions regarding the underwriting standards pursuant to which the mortgage loans underlying the RMBS were issued. NWMSI has reached an agreement in principle to settle this matter for an amount that is covered by an existing provision.

London Interbank Offered Rate (LIBOR) and other rates litigation

On 30 September 2021, the United States District Court for the Southern District of New York dismissed all claims against NWM Plc and other NatWest Group companies in the class action alleging that manipulation of JPY LIBOR and Euroyen TIBOR impacted the price of derivatives allegedly tied to those rates, finding a lack of antitrust standing and personal jurisdiction. The dismissal may be the subject of a future appeal.

Madoff

NatWest Markets N.V. (NWM N.V.) is a defendant in two actions filed by the trustee for the bankruptcy estates of Bernard L. Madoff and Bernard L. Madoff Investment Securities LLC, in bankruptcy court in New York, which together seek to clawback more than US\$298 million in redemptions that NWM N.V. allegedly received from certain Madoff feeder funds and certain swap counterparties. In these and similar cases pending against other defendants, the bankruptcy court previously held that, in order to proceed to discovery and pursue its claims, the trustee had to allege that a defendant lacked "good faith" when it received the funds in question. In August 2021, the United States Court of Appeals for the Second Circuit, in similar cases against other defendants, reversed the bankruptcy court's ruling on this question, holding instead that if a defendant wishes to rely on "good faith" arguments, it is a matter for the defendant to prove in their defence. The trustee's actions against NWM N.V. will proceed in light of the appellate court's ruling.

Odd lot corporate bond trading antitrust litigation

On 25 October 2021, the United States District Court for the Southern District of New York granted, on several grounds, defendants' motion to dismiss the class action complaint alleging that from August 2006 onwards various securities dealers, including NWMSI, conspired artificially to widen spreads for odd lots of corporate bonds bought or sold in the United States secondary market and to boycott electronic trading platforms that would have allegedly promoted pricing competition in the market for such bonds. The dismissal is subject to appeal.

Regulatory matters

US investigations relating to fixed-income securities

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

The NatWest Markets business is currently responding to a separate criminal investigation by the USAO and the US Department of Justice (DoJ) concerning unrelated trading by certain NWM Plc and NWMSI former traders involving alleged spoofing. The NPA (referred to above) has been extended as the criminal investigation has progressed and related discussions with the USAO and the DoJ, including relating to the impact of such alleged conduct on the status of the NPA and the potential consequences thereof, have been ongoing.

Notes

6. Litigation and regulatory matters continued

On 30 August 2021, NWMSI received a letter from USAO stating that it had determined that NWMSI had materially breached the NPA as a result of the alleged spoofing activity and that NWMSI is subject to prosecution for securities fraud in respect of the conduct underlying the NPA. NatWest Markets is engaging in discussions with the U.S. government about the resolution of the alleged spoofing activity investigation and the USAO's determination of the breach of the NPA, including why criminal prosecution of the conduct underlying the NPA should not be pursued.

The precise duration and outcome of this matter remains uncertain.

Adverse outcomes or resolution of current or future legal or regulatory actions (in particular, a finding of criminal liability in this matter) could have material collateral consequences for NWM Group's business and result in restrictions or limitations on NWM Group's operations.

These may include the effective or actual disqualification from carrying on certain regulated activities and consequences resulting from the need to reapply for various important licences or obtain waivers to conduct certain existing activities of NWM Group, particularly but not solely in the US, which may take a significant period of time and the results of which are uncertain. Disqualification from carrying on any activities, whether automatic as a result of the resolution of a particular matter or as a result of the failure to obtain such licences or waivers could adversely impact NWM Group's business, in particular in the US. This in turn and/or any fines, settlement payments or penalties could adversely impact NWM Group's reported financial results and condition, capital position or reputation.

FCA investigation into NatWest Group's compliance with the Money Laundering Regulations 2007

In July 2017, the FCA notified NatWest Group that it was undertaking an investigation into NatWest Group's compliance with the UK Money Laundering Regulations 2007 ("MLR 2007") in relation to certain money service businesses and related parties.

In March 2021, the FCA notified NatWest Group that it had commenced criminal proceedings against NWB Plc for three offences under regulation 45(1) of the MLR 2007 arising from the handling of the accounts of a UK incorporated customer.

On 7 October 2021, NWB Plc pleaded guilty to the three offences under regulation 45(1) of the MLR 2007 for failure to comply with regulation 8(1) of the MLR 2007 between 7 November 2013 and 23 June 2016 and 8(3) and 14(1) of the MLR 2007 between 8 November 2012 and 23 June 2016.

These regulations required the firm to determine and conduct risk sensitive due diligence and ongoing monitoring of its customers for the purposes of preventing money laundering. The offences relate to operational weaknesses between 2012 and 2016, during which period NWB Plc did not adequately monitor the accounts of that customer.

NWB Plc has cooperated fully with the FCA since its investigation began. The FCA has confirmed it will not take action against any individual current or former employee of NWB Plc.

The case has been remitted to the Crown Court for sentencing, which will be determined at a hearing scheduled to take place on a date to be determined by the Crown Court. NWB Plc made a provision at 30 September 2021 in anticipation of a potential fine being imposed at that hearing, but is not disclosing the amount as it remains the matter of ongoing judicial proceedings. In addition to the fine, other material adverse collateral consequences may occur as a result of these convictions, which may affect members of the NWM Group.

7. Post balance sheet events

On 28 October 2021, the NWM Plc Board approved an interim dividend of £250 million, or £0.63 per share, to be declared and payable to NatWest Group plc on 29 October 2021. There has been no adjustment to the 30 September 2021 condensed consolidated financial statements. For regulatory reporting purposes, a £250 million foreseeable dividend deduction has been applied to the Q3 2021 regulatory capital position.

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

Non-IFRS measures

NWM Group prepares its financial statements in accordance generally accepted accounting principles (GAAP). This document contains a number of adjusted or alternative performance measures, also known as non-GAAP or non-IFRS performance measures. These measures are adjusted for certain items which management believe are not representative of the underlying performance of the business and which distort period-on-period comparison. These non-IFRS measures are not measures within the scope of IFRS and are not a substitute for IFRS measures. These measures include:

- Management analysis of the operating expenses shows strategic costs and litigation and conduct costs in separate lines on pages 3 and 4. These amounts are included in staff, premises and equipment and other administrative expenses in the statutory analysis.
- Funded assets defined as total assets less derivative assets.
- Management view of income by business before revenue share payments and excluding own credit adjustments and asset disposals/strategic risk reduction.
- Revenue share payments refers to income generated by NatWest Markets from customers that have their primary relationship with other NatWest Group segments which as a result is shared with those segments.
- Asset disposals/strategic risk reduction includes the costs of exiting positions, which includes changes in carrying value to align to the expected exit valuation, and the impact of risk reduction transactions entered into as part of the optimisation of the entity's capital usage, following the strategic announcements of 14 February 2020.
- Own credit adjustments are applied to positions where it is believed that the counterparties would consider NWM Group's creditworthiness when pricing trades. The fair value of certain issued debt securities, including structured notes, is adjusted to reflect the changes in own credit spreads and the resulting gain or loss recognised in income.

Non-IFRS measures
Operating expenses analysis
Statutory analysis (1, 2)

	Nine months ended		Quarter ended		
	30 September 2021	30 September 2020	30 September 2021	30 June 2021	30 September 2020
	£m	£m	£m	£m	£m
Operating expenses					
Staff costs	370	519	118	118	142
Premises and equipment	59	88	22	18	13
Other administrative expenses	333	454	152	67	106
Depreciation and amortisation	15	17	5	5	3
Total operating expenses	777	1,078	297	208	264

Non-statutory analysis

	Nine months ended 30 September 2021			
	Strategic costs	Litigation and conduct costs	Other expenses	Statutory operating expenses
Operating expenses				
Staff costs	97	-	273	370
Premises and equipment	4	-	55	59
Other administrative expenses	47	(41)	327	333
Depreciation and amortisation	1	-	14	15
Total	149	(41)	669	777

	Nine months ended 30 September 2020			
	Strategic costs	Litigation and conduct costs	Other expenses	Statutory operating expenses
Operating expenses				
Staff costs	92	-	427	519
Premises and equipment	18	-	70	88
Other administrative expenses	34	127	293	454
Depreciation and amortisation	-	-	17	17
Total	144	127	807	1,078

	Quarter ended 30 September 2021			
	Strategic costs	Litigation and conduct costs	Other expenses	Statutory operating expenses
Operating expenses				
Staff costs	32	-	86	118
Premises and equipment	1	-	21	22
Other administrative expenses	20	27	105	152
Depreciation and amortisation	1	-	4	5
Total	54	27	216	297

	Quarter ended 30 June 2021			
	Strategic costs	Litigation and conduct costs	Other expenses	Statutory operating expenses
Operating expenses				
Staff costs	40	-	78	118
Premises and equipment	2	-	16	18
Other administrative expenses	21	(81)	127	67
Depreciation and amortisation	-	-	5	5
Total	63	(81)	226	208

	Quarter ended 30 September 2020			
	Strategic costs	Litigation and conduct costs	Other expenses	Statutory operating expenses
Operating expenses				
Staff costs	33	-	109	142
Premises and equipment	(4)	-	17	13
Other administrative expenses	3	14	89	106
Depreciation and amortisation	-	-	3	3
Total	32	14	218	264

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

Additional information

Presentation of information

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

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

To aid readability, this document retains references to EU legislative and regulatory provisions in effect in the UK before 1 January 2021 that have now been implemented in UK domestic law. These references should be read and construed as including references to the applicable UK implementation measures with effect from 1 January 2021.

Western European corporate portfolio

In order to improve efficiencies and best serve customers, NatWest Group and NWM Group are evaluating whether NatWest Group's Western European corporate portfolio, including term funding and revolving credit facilities, as well as certain other transactions and activities, will remain in the ring-fenced subgroup of NatWest Group or be transferred or re-booked to NWM Group. Some or all of the portfolio and other transactions and activities already held in NWM Group may be transferred or re-booked to the ring-fenced subgroup of NatWest Group. The timing and quantum of such transfers or re-bookings, if any, is uncertain.

NatWest Markets Group legal entity disclosures

There is a distinction between the disclosure of the NatWest Markets operating segment performance in the NatWest Group's Q3 2021 results and the NatWest Markets Group's results presented in this document, with differences primarily as follows:

- NatWest Markets Group's Q3 2021 results include its part of the Central items & other segment.
- NatWest Group's Q3 2021 results reports the NatWest Markets segment excluding Central items & other.

MAR – Inside Information

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

Statutory results

Financial information contained in this document does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006 ("the Act"). The statutory accounts for the year ended 31 December 2020 have been filed with the Registrar of Companies. The report of the auditor on those statutory accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Act.

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Forward-looking statements

This document contains forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995, such as statements that include, without limitation, the words 'expect', 'estimate', 'project', 'anticipate', 'commit', 'believe', 'should', 'intend', 'will', 'plan', 'could', 'probability', 'risk', 'Value-at-Risk (VaR)', 'target', 'goal', 'objective', 'may', 'endeavour', 'outlook', 'optimistic', 'prospects' and similar expressions or variations on these expressions. These statements concern or may affect future matters, such as NWM Group's future economic results, business plans and current strategies. In particular, this document may include forward-looking statements relating to NWM Group in respect of, but not limited to: the impact of the COVID-19 pandemic, NWM Plc's regulatory capital position and related requirements, its financial position, profitability and financial performance (including financial, capital, cost savings and operational targets), the NWM Group refocusing and implementation of NatWest Group's Purpose-led strategy, its ESG and climate-related targets, its access to adequate sources of liquidity and funding, increasing competition from new incumbents and disruptive technologies, its exposure to third party risks, its ongoing compliance with the UK ring-fencing regime 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 Group's exposure to economic and political risks (including with respect to Brexit and climate change), operational risk, conduct risk, cyber and IT risk, key person risk and credit rating risk. Forward-looking statements are subject to a number of risks and uncertainties that might cause actual results and performance to differ materially from any expected future results or performance expressed or implied by the forward-looking statements. Factors that could cause or contribute to differences in current expectations include, but are not limited to, the impact of the COVID-19 pandemic, the outcome of legal, regulatory and governmental actions and investigation, legislative, political, fiscal and regulatory developments, accounting standards, competitive conditions, technological developments, interest and exchange rate fluctuations, general economic and political conditions and the impact of climate-related risks and the transitioning to a low carbon economy. These and other factors, risks and uncertainties that may impact any forward-looking statement or NWM Group's actual results are discussed in NWM Plc's 2020 Annual Report and Accounts (ARA), NWM Plc's 2021 Registration Document, NWM Plc's Interim Results for H1 2021 and other public filings. The forward-looking statements contained in this document speak only as of the date of this document and NWM Group does not assume or undertake any obligation or responsibility to update any of the forward-looking statements contained in this document, whether as a result of new information, future events or otherwise, except to the extent legally required.

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