NatWest Group

NatWest Bank Group Interim Results 2023

National Westminster Bank Plc

Interim results for the period ended 30 June 2023

NatWest Bank Group (NWB Group) reported an attributable profit for the period of £2,325 million, compared with £1,892 million in H1 2022.

The results of NWB Group in the first half of the year reflect a strong operating performance across our operating segments with good growth in key areas underpinned by a robust loan book and balance sheet. A strong balance sheet and prudent approach to risk means NWB Group remains well placed to support our customers in this current uncertain and challenging environment.

Strong H1 2023 performance

- Attributable profit for the period was £2,325 million compared with £1,892 million in H1 2022.
- Total income increased by £939 million to £6,610 million compared with £5,671 million in H1 2022, reflecting the beneficial impact from base rate rises and lending growth.
- Operating expenses increased by £235 million to £3,265 million, compared with £3,030 million in H1 2022, principally due to higher staff costs, as a result of one-off cost of living payments, and continued investment in the capability of the business.
- The cost:income ratio has decreased from 53.4% to 49.4%.
- A net impairment loss of £191 million in H1 2023 compared with a release of £18 million in H1 2022 reflects an increase in post model adjustments driven by increased economic uncertainty. Defaults remain stable and at low levels across the portfolio.

Robust balance sheet with strong capital and liquidity levels

- Net loans to customers increased by £10.7 billion to £312.3 billion during H1 2023, primarily reflecting £6.7 billion mortgage growth in Retail Banking, and a £1.4 billion increase in Commercial & Institutional due to corporate lending growth, partly offset by UK Government scheme repayments.
- Customer deposits decreased by £15.1 billion to £307.5 billion during H1 2023 primarily reflecting seasonal factors including customer tax payments, increased competition for savings balances and an overall market liquidity contraction. Deposit balances were broadly stable in the second quarter following the outflows in the first quarter.
- The loan:deposit ratio (LDR) (excl. repos and reverse repos) was 97.4%, with customer deposits exceeding net loans to customers by around £7.1 billion.
- Total RWAs increased by £4.4 billion during the period primarily reflecting an increase in exposures within Retail Banking and Commercial & Institutional, in addition to model adjustments applied as a result of new regulations. Operational risk also increased by £1.3 billion following the annual recalculation.
- The CET1 ratio increased to 11.7% from 11.3%. This is due to a £0.9 billion increase in CET1 capital partially offset by a £4.4 billion increase in RWAs. The CET1 increase was mainly driven by a £1.8 billion profit, offset by a foreseeable dividend of £0.8 billion and other reserves movements in the period.

Financial review

Financial performance summary

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

	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Half year ended 30 June 2023 £m	30 June 2022 £m	Variance £m	%
Net interest income	2,452	426	1,537	(166)	4,249	3,405	844	25%
Non-interest income	212	137	687	1,325	2,361	2,266	95	4%
Total income	2,664	563	2,224	1,159	6,610	5,671	939	17%
Operating expenses	(1,134)	(306)	(1,067)	(758)	(3,265)	(3,030)	(235)	8%
Profit before impairment losses/releases	1,530	257	1,157	401	3,345	2,641	704	27%
Impairment (losses)/releases	(167)	(10)	(18)	4	(191)	18	(209)	nm
Operating profit	1,363	247	1,139	405	3,154	2,659	495	19%
Tax charge					(829)	(767)	(62)	8%
Profit for the period					2,325	1,892	433	23%

Attributable to:	Half year ended 30 June 2023 £m	30 June 2022 £m
Ordinary shareholders	2,264	1,833
Paid-in equity holders	61	56
Non-controlling interests	—	3
Profit for the period	2,325	1,892

Key metrics and ratios	Half year ended 30 June 2023	30 June 2022
Cost:income ratio (%) (1)	49.4	53.4
Loan impairment rate (bps) (2)	12	(1)

	As at 30 June 2023	31 December 2022
CET1 ratio (%) (3)	11.7	11.3
Leverage ratio (%) (4)	4.4	4.4
Risk weighted assets (RWAs) (£bn)	116.8	112.4
Loan:deposit ratio (%) (5)	97.4	90.0

(1) Cost:income ratio is total operating expenses divided by total income.
(2) Loan impairment rate is the annualised loan impairment charge divided by gross customer loans.
(3) Common Equity Tier 1 (CET1) ratio is CET1 capital divided by RWAs.
(4) Leverage ratio is Tier 1 capital divided by total exposure. This is in accordance with changes to the UK's leverage ratio framework. Refer to page 63 of the NatWest Bank Plc 2022 Annual Report and Accounts for further details.
(5) Loan deposit ratio is total loans divided by total deposits.

Total income increased by £939 million, or 17%, to £6,610 million compared with £5,671 million in H1 2022.

Net interest income increased by £844 million, or 25%, to £4,249 million, compared with £3,405 million in H1 2022, reflecting the beneficial impact of base rate increases and lending growth, partially offset by a reduction in mortgage margins.

Non-interest income increased by £95 million, or 4%, to £2,361 million, compared with £2,266 million in H1 2022.

- Net fees and commissions increased by £31 million to £819 million due to higher transactional-related fee income.
- Other operating income increased by £64 million to £1,542 million, compared with £1,478 million in H1 2022, reflecting:
  - £234 million gain in H1 2023 on redemption of own debt; partially offset by
  - £117 million reduction in gains predominantly from derivatives held for economic hedging purposes, reflecting interest rate volatility across all currencies; and
  - £24 million loss incurred on bond disposals, a reduction of £60 million compared with gains of £36 million in H1 2022.

Operating expenses increased by £235 million, or 8%, to £3,265 million, compared with £3,030 million in H1 2022.

- Staff costs increased by £155 million following higher pay awards to support our colleagues with cost of living challenges.
- Premises and equipment costs increased by £28 million due to further investments in technology.
- Depreciation and amortisation costs increased by £69 million due to additions and a property impairment.
- Other administrative expenses have decreased by £17 million due to reduced conduct and remediation charges.

Financial review

Financial performance summary continued

A net impairment loss of £191 million in H1 2023, compared with a release of £18 million in H1 2022, reflects an increase in post model adjustments driven by increased economic uncertainty. Defaults remain stable and at low levels across the portfolio. Total impairment provisions increased by £0.1 billion to £2.7 billion in H1 2023, with no movement in the ECL provision coverage ratio of 0.84% compared with 31 December 2022.

Customer lending and deposits

Customer lending increased by £10.6 billion to £312.3 billion, compared with £301.7 billion as at 31 December 2022, predominantly driven by:

- £6.7 billion retail mortgage growth as a result of strong gross new lending, partially offset by redemptions;
- £1.4 billion net increase in Commercial & Institutional lending due to corporate lending growth, partly offset by UK Government scheme repayments; and
- £2.1 billion increase resulting from Treasury net repo activity.
- Customer deposits decreased by £15.1 billion to £307.5 billion, primarily reflecting seasonal factors including customer tax payments, increased competition for savings balances and an overall market liquidity contraction.

Other balance sheet movements

- Derivative assets increased by £0.3 billion and derivative liabilities decreased by £0.3 billion driven by interest rate changes and sterling FX rate appreciation.
- Other financial assets increased by £4.2 billion to £18.7 billion, primarily reflecting a £4.3 billion net impact from bond purchases, sales and maturities. The remaining movement reflects changes in the fair value of the bond portfolio due to interest and FX rate movements.
- Bank deposits increased by £1.0 billion to £17.0 billion due to a £0.7 billion increase in repo balances and a £0.3 billion increase in deposits.
- Amounts due to holding companies and fellow subsidiaries increased by £5.0 billion to £43.8 billion.
- Other financial liabilities increased by £5.6 billion primarily due to changes in interest rates in short and medium-term funding.
- Owners' equity increased by £1.2 billion due to the net impact of profit in the period, offset by dividends paid.

Business performance summary

Retail Banking

Operating profit was £1,363 million, compared with £1,177 million in H1 2022.

- Net interest income increased by £422 million to £2,452 million compared with £2,030 million in H1 2022, reflecting continued strong mortgage growth and higher deposit income supported by interest rate rises, partially offset by a reduction in mortgage margins, lower deposit balances with mix shift from non-interest bearing to interest bearing balances, as well as increased liquidity and funding costs.
- Non-interest income increased by £18 million to £212 million, compared with £194 million in H1 2022, primarily reflecting higher net income from the recharging of costs to other NatWest Group entities.
- Operating expenses increased by £119 million to £1,134 million compared with £1,015 million in H1 2022, reflecting higher pay awards to support colleagues with cost of living challenges and increased data and restructuring costs, partially offset by lower conduct costs.
- Impairment losses of £167 million in H1 2023 reflect good book charges driven by strong unsecured lending growth in H1 2023, partially offset by benefits from the updated economic outlook. Stage 3 defaults remain stable.
- Net loans to customers increased by £7.5 billion in H1 2023 mainly reflecting continued mortgage growth of £6.7 billion, with gross new mortgage lending of £16.7 billion. Cards balances increased by £0.6 billion and personal advances increased by £0.3 billion in H1 2023 with strong customer demand.
- Customer deposits decreased by £3.9 billion in H1 2023 reflecting the impact of customer tax payments which were higher than previous years, lower household liquidity and increased competition for savings balances.

Business performance summary continued

Private Banking

Operating profit was £247 million, compared with £172 million in H1 2022.

- Net interest income increased by £125 million to £426 million, compared with £301 million in H1 2022, reflecting higher deposit income supported by interest rate rises, partially offset by a reduction in mortgage margins.
- Non-interest income decreased by £5 million to £137 million primarily due to a reduction in asset management fees.
- Operating expenses increased by £23 million to £306 million, reflecting the impact of pay awards to support colleagues with cost of living challenges and increased technology costs.
- Impairment losses of £10 million in H1 2023 reflect higher good book charges and a small level of stage 3 defaults.
- Net loans to customers were broadly flat as gross new lending was offset by increased repayments.
- Customer deposits decreased by £4.7 billion to £36.5 billion in H1 2023 driven by tax outflows which were higher than previous years, increased loan repayments and increased competition for savings balances.

Commercial & Institutional

Operating profit was £1,139 million, compared with £845 million in H1 2022.

- Net interest income increased by £330 million to £1,537 million, compared with £1,207 million in H1 2022, primarily reflecting higher deposit returns from an improved interest rate environment and lending growth, partially offset by increased liquidity and funding costs.
- Non-interest income increased by £128 million to £687 million, primarily reflecting improved card payment fees and gains on derivatives held for economic hedging purposes.
- Operating expenses increased by £109 million to £1,067 million, reflecting the impact of pay awards to support colleagues with cost of living challenges and continued investment in the business.
- Impairment losses of £18 million in H1 2023 compared with an impairment release of £37 million in H1 2022, reflect higher good book charges as benefits from revised economic outlook are more than offset by an increase in post model adjustments.
- Net loans to customers increased by £1.4 billion to £83.0 billion, reflecting an increase in term loan facilities and asset finance, partially offset by continued UK Government scheme repayments.
- Customer deposits decreased by £6.3 billion to £112.0 billion primarily due to overall market liquidity contraction particularly in current accounts with growth in savings deposit balances.

Central items & other

Operating profit was £405 million, compared with £465 million in H1 2022.

- Total income decreased by £79 million primarily due to lower income from hedging activities, including lower gains on economic hedging derivatives, reflecting interest rate movements and a loss on bond disposals. This was partially offset by a £234 million gain on redemption of own debt.
- Operating expenses decreased by £16 million to £758 million, primarily due to lower restructuring costs. Costs recovered through service recharges to other NatWest Group entities in non-interest income totalled £710 million.

Financial review

Capital and leverage ratios

The table below sets out the key capital and leverage ratios. NWB Plc is subject to the requirements set out in UK CRR therefore capital and leverage ratios are presented under these frameworks on a transitional basis.

	30 June 2023	31 December 2022
Capital adequacy ratios	**%**	%
CET1 (1)	**11.7**	11.3
Tier 1	**13.6**	13.3
Total	**16.5**	15.9
Capital	**£m**	£m
CET1 (1)	**13,609**	12,713
Tier 1	**15,852**	14,956
Total	**19,235**	17,877
Risk-weighted assets		
Credit risk	**101,802**	98,913
Counterparty credit risk	**675**	497
Market risk	**15**	26
Operational risk	**14,319**	12,992
Total RWAs	**116,811**	112,428
Leverage		
Tier 1 capital (£m)	**15,852**	14,956
Leverage exposure (£m) (2)	**363,052**	341,308
Leverage ratio (%) (1)	**4.4**	4.4

(1) Includes an IFRS 9 transitional adjustment of £0.2 billion (31 December 2022 - £0.3 billion). Excluding this adjustment, the CET1 ratio would be 11.5% (31 December 2022 – 11.1%) and the leverage ratio would be 4.3% (31 December 2022 – 4.3%).

(2) 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.

- The CET1 ratio increased to 11.7% from 11.3%. This is due to a £0.9 billion increase in CET1 capital partially offset by a £4.4 billion increase in RWAs. The CET1 increase was mainly driven by a £1.8 billion profit, offset by a foreseeable dividend of £0.8 billion and other reserves movements in the period.
- NWB Plc issued a £0.6 billion internal EUR Tier 2 instrument in February 2023 and in June 2023 an issuance of £0.65 billion internal GBP Tier 2 partially offsetting a £0.7 billion internal Tier 2 redemption.
- Total RWAs increased by £4.4 billion during the period primarily reflecting an increase in exposures within Retail Banking and Commercial & Institutional, in addition to IRB model adjustments applied as a result of new regulations. Operational risk also increased by £1.3 billion following the annual recalculation.

Condensed consolidated income statement
for the period ended 30 June 2023 (unaudited)

	Half year ended	
	30 June 2023 £m	30 June 2022 £m
Interest receivable	6,613	3,868
Interest payable	(2,364)	(463)
Net interest income	4,249	3,405
Fees and commissions receivable	1,070	1,037
Fees and commissions payable	(251)	(249)
Other operating income	1,542	1,478
Non-interest income	2,361	2,266
Total income	6,610	5,671
Staff costs	(1,591)	(1,436)
Premises and equipment	(515)	(487)
Other administrative expenses	(714)	(731)
Depreciation and amortisation	(445)	(376)
Operating expenses	(3,265)	(3,030)
Profit before impairment losses/releases	3,345	2,641
Impairment (losses)/releases	(191)	18
Operating profit before tax	3,154	2,659
Tax charge	(829)	(767)
Profit for the period	2,325	1,892
Attributable to:		
Ordinary shareholders	2,264	1,833
Paid-in equity holders	61	56
Non-controlling interests	—	3
	2,325	1,892

Condensed consolidated statement of comprehensive income
for the period ended 30 June 2023 (unaudited)

	Half year ended	
	30 June 2023 £m	30 June 2022 £m
Profit for the period	2,325	1,892
Items that do not qualify for reclassification		
Remeasurement of retirement benefit schemes	(64)	(536)
Tax	15	135
	(49)	(401)
Items that do qualify for reclassification		
FVOCI financial assets	44	(373)
Cash flow hedges	(221)	(308)
Currency translation	(18)	2
Tax	51	205
	(144)	(474)
Other comprehensive loss after tax	(193)	(875)
Total comprehensive income for the period	2,132	1,017
Attributable to:		
Ordinary shareholders	2,071	958
Paid-in equity holders	61	56
Non-controlling interests	—	3
	2,132	1,017

Condensed consolidated balance sheet as at 30 June 2023 (unaudited)

	30 June 2023 £m	31 December 2022 £m
Assets		
Cash and balances at central banks	52,453	73,065
Derivatives	4,736	4,407
Loans to banks - amortised cost	3,657	3,197
Loans to customers - amortised cost	312,337	301,684
Amounts due from holding companies and fellow subsidiaries	7,015	4,903
Other financial assets	18,709	14,546
Other assets	7,639	7,667
Total assets	406,546	409,469
Liabilities		
Bank deposits	17,014	16,060
Customer deposits	307,491	322,614
Amounts due to holding companies and fellow subsidiaries	43,813	38,771
Derivatives	1,751	2,088
Other financial liabilities	10,999	5,384
Subordinated liabilities	122	197
Notes in circulation	798	809
Other liabilities	3,285	3,470
Total liabilities	385,273	389,393
Owners' equity	21,232	20,066
Non-controlling interests	41	10
Total equity	21,273	20,076
Total liabilities and equity	406,546	409,469

Condensed consolidated statement of changes in equity for the period ended 30 June 2023 (unaudited)

	Half year ended	
	30 June 2023 £m	30 June 2022 £m
Called-up share capital - at beginning and end of period	**1,678**	1,678
Paid-in equity - at beginning of period	**2,518**	2,377
Redeemed	—	(359)
Issued (1)	—	500
At end of period	**2,518**	2,518
Share premium account - at beginning and end of period	**2,225**	2,225
Merger reserve - at beginning of period	**77**	14
Amortisation	**(24)**	33
At end of period	**53**	47
FVOCI reserve - at beginning of period	**(76)**	192
Unrealised gains/(losses)	**20**	(337)
Realised losses/(gains)	**24**	(36)
Tax	**(11)**	119
At end of period	**(43)**	(62)
Cash flow hedging reserve - at beginning of period	**(391)**	(1)
Amount recognised in equity	**(82)**	(223)
Amount transferred from equity to earnings	**(139)**	(85)
Tax	**62**	86
At end of period	**(550)**	(223)
Foreign exchange reserve - at beginning of period	**(87)**	(85)
Retranslation of net assets	**(48)**	15
Foreign currency gains/(losses) on hedges of net assets	**30**	(13)
At end of period	**(105)**	(83)
Capital redemption reserve - at beginning and end of period	**820**	820
Retained earnings - at beginning of period	**13,302**	13,507
Profit attributable to ordinary shareholders and other equity owners	**2,325**	1,889
Paid-in equity dividends paid	**(61)**	(56)
Ordinary dividends paid	**(900)**	(993)
Redemption of paid-in equity (2)	—	(29)
Remeasurement of the retirement benefit schemes		
- gross	**(64)**	(536)
- tax	**15**	135
Employee share schemes	**6**	6
Share-based payments		
- gross	**(11)**	(13)
- tax	—	(2)
Amortisation of merger reserve	**24**	(33)
At end of period	**14,636**	13,875
Owners' equity at end of period	**21,232**	20,795

For the notes to this table refer the following page.

Condensed consolidated statement of changes in equity for the period ended 30 June 2023 continued (unaudited)

	Half year ended	
	30 June 2023 £m	30 June 2022 £m
Non-controlling interests - at beginning of period	**10**	10
Profit attributable to non-controlling interests	**—**	3
New minority interest holding	**31**	—
At end of period	**41**	13
Total equity at end of period	**21,273**	20,808
Attributable to:		
Ordinary shareholders	**18,714**	18,277
Paid-in equity holders	**2,518**	2,518
Non-controlling interests	**41**	13
	21,273	20,808

(1) In June 2022, AT1 capital notes totalling £500 million less fees were issued.
(2) The redemption of paid-in equity is made up of FX unlocking and loss on redemption.

Condensed consolidated cash flow statement for the period ended 30 June 2023 (unaudited)

	Half year ended	
	30 June 2023 £m	30 June 2022 £m
Operating activities		
Operating profit before tax	**3,154**	2,659
Adjustments for non-cash and other items	**1,200**	529
Net cash flows from trading activities	**4,354**	3,188
Changes in operating assets and liabilities	**(19,066)**	(9,673)
Net cash flows from operating activities before tax	**(14,712)**	(6,485)
Income taxes paid	**(671)**	(515)
Net cash flows from operating activities	**(15,383)**	(7,000)
Net cash flows from investing activities	**(2,786)**	6,474
Net cash flows from financing activities	**(139)**	(254)
Effects of exchange rate changes on cash and cash equivalents	**(677)**	729
Net decrease in cash and cash equivalents	**(18,985)**	(51)
Cash and cash equivalents at beginning of period	**76,318**	106,645
Cash and cash equivalents at end of period	**57,333**	106,594

Notes

1. Presentation of condensed consolidated financial statements

The condensed consolidated financial statements should be read in conjunction with NatWest Bank Plc's 2022 Annual Report and Accounts. The accounting policies are the same as those applied in the consolidated financial statements.

The directors have prepared the condensed consolidated financial statements on a going concern basis after assessing the principal risks, forecasts, projections and other relevant evidence over the twelve months from the date they are approved and in accordance with IAS 34 'Interim Financial Reporting', as adopted by the UK and as issued by the International Accounting Standards Board (IASB), and the Disclosure Guidance and Transparency Rules sourcebook of the UK's Financial Conduct Authority.

Amendments to IFRS effective from 1 January 2023 had no material effect on the condensed consolidated financial statements.

2. Net interest income

	Half year ended	
	30 June 2023 £m	30 June 2022 £m
Balances at central banks and loans to banks - amortised cost	**531**	297
Loans to customers - amortised cost	**5,691**	3,470
Amounts due from holding companies and fellow subsidiaries	**79**	15
Other financial assets	**312**	86
Interest receivable	**6,613**	3,868
Bank deposits	**316**	98
Customer deposits	**859**	69
Amounts due to holding companies and fellow subsidiaries	**960**	210
Other financial liabilities	**222**	77
Subordinated liabilities	**7**	9
Interest payable	**2,364**	463
Net interest income	**4,249**	3,405

3. Operating expenses

	Half year ended	
	30 June 2023 £m	30 June 2022 £m
Salaries and other staff costs	**1,231**	1,063
Temporary and contract costs	**88**	108
Social security costs	**145**	129
Pension costs	**127**	136
- defined benefit schemes	**51**	72
- defined contribution schemes	**76**	64
Staff costs	**1,591**	1,436
Premises and equipment	**515**	487
Depreciation and amortisation	**445**	376
Other administrative expenses	**714**	731
Administrative expenses	**1,674**	1,594
Operating expenses	**3,265**	3,030

Notes

4. Segmental analysis

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

Analysis of operating profit

Half year ended 30 June 2023	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
Net interest income	2,452	426	1,537	(166)	4,249
Net fees and commissions	159	123	535	2	819
Other non-interest income	53	14	152	1,323	1,542
Total income	2,664	563	2,224	1,159	6,610
Depreciation and amortisation	—	—	(65)	(380)	(445)
Other operating expenses	(1,134)	(306)	(1,002)	(378)	(2,820)
Impairment (losses)/releases	(167)	(10)	(18)	4	(191)
Operating profit	1,363	247	1,139	405	3,154
Half year ended 30 June 2022					
Net interest income	2,030	301	1,207	(133)	3,405
Net fees and commissions	174	127	479	8	788
Other non-interest income	20	15	80	1,363	1,478
Total income	2,224	443	1,766	1,238	5,671
Depreciation and amortisation	—	—	(67)	(309)	(376)
Other operating expenses	(1,015)	(283)	(891)	(465)	(2,654)
Impairment (losses)/releases	(32)	12	37	1	18
Operating profit	1,177	172	845	465	2,659

Total revenue (1)

Half year ended 30 June 2023	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
External	3,027	409	2,988	2,801	9,225
Inter-segmental	(66)	559	(703)	210	—
Total	2,961	968	2,285	3,011	9,225
Half year ended 30 June 2022					
External	2,400	395	1,645	1,943	6,383
Inter-segmental	14	119	72	(205)	—
Total	2,414	514	1,717	1,738	6,383

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

Notes

4. Segmental analysis continued

Analysis of net fees and commissions

Half year ended 30 June 2023	**Retail Banking £m**	**Private Banking £m**	**Commercial & Institutional £m**	**Central items & other £m**	**Total £m**
Fees and commissions receivable					
- Payment services	**130**	**16**	**258**	**—**	**404**
- Credit and debit card fees	**160**	**6**	**98**	**—**	**264**
- Lending and financing	**7**	**3**	**232**	**—**	**242**
- Brokerage	**14**	**3**	**—**	**—**	**17**
- Investment management, trustee and fiduciary services	**1**	**102**	**—**	**—**	**103**
- Other	**1**	**2**	**28**	**9**	**40**
Total	**313**	**132**	**616**	**9**	**1,070**
Fees and commissions payable	**(154)**	**(10)**	**(81)**	**(6)**	**(251)**
Net fees and commissions	**159**	**122**	**535**	**3**	**819**
Half year ended 30 June 2022					
Fees and commissions receivable					
- Payment services	123	16	235	—	374
- Credit and debit card fees	163	8	73	—	244
- Lending and financing	7	4	212	—	223
- Brokerage	21	3	—	—	24
- Investment management, trustee and fiduciary services	1	111	—	—	112
- Other	—	—	75	(15)	60
Total	315	142	595	(15)	1,037
Fees and commissions payable	(141)	(15)	(116)	23	(249)
Net fees and commissions	174	127	479	8	788

Total assets and liabilities

30 June 2023	**Retail Banking £m**	**Private Banking £m**	**Commercial & Institutional £m**	**Central items & other £m**	**Total £m**
Assets	**192,595**	**19,893**	**88,578**	**105,480**	**406,546**
Liabilities	**149,363**	**36,764**	**124,880**	**74,266**	**385,273**
31 December 2022					
Assets	184,140	19,734	86,406	119,189	409,469
Liabilities	153,304	41,489	127,301	67,299	389,393

Notes

5. Tax

The actual tax charge differs from the expected tax charge computed by applying the standard UK corporation tax rate of 23.5% (2022 - 19%), as analysed below:

	Half year ended	
	30 June 2023 £m	30 June 2022 £m
Profit before tax	**3,154**	2,659
Expected tax charge	**(741)**	(505)
Losses and temporary differences in period where no deferred tax assets recognised	**—**	(1)
Foreign profits taxed at other rates	**(1)**	(2)
Items not allowed for tax:		
- UK bank levy	**(8)**	(6)
- regulatory and legal actions	**(5)**	(9)
- other disallowable items	**(10)**	(7)
Non-taxable items	**63**	6
Increase/(decrease) in the carrying value of deferred tax assets in respect of UK losses	**1**	(13)
Banking surcharge	**(118)**	(199)
Tax on paid-in equity	**12**	11
UK tax rate change impact	**—**	(79)
Adjustments in respect of prior periods	**(22)**	37
Actual tax charge	**(829)**	(767)

At 30 June 2023, NWB Group has recognised a deferred tax asset of £979 million (31 December 2022 - £1,117 million) and a deferred tax liability of £123 million (31 December 2022 - £130 million). These amounts include deferred tax assets recognised in respect of trading losses of £295 million (31 December 2022 - £445 million). NWB Group has considered the carrying value of these assets as at 30 June 2023 and concluded that they are recoverable.

Notes

6. Financial instruments - classification

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

	MFVTPL £m	FVOCI £m	Amortised cost £m	Other assets £m	Total £m
Assets					
Cash and balances at central banks			52,453		52,453
Derivatives (1)	4,736				4,736
Loans to banks - amortised cost (2)			3,657		3,657
Loans to customers - amortised cost (3)			312,337		312,337
Amounts due from holding companies and fellow subsidiaries	5		6,387	623	7,015
Other financial assets	248	11,553	6,908		18,709
Other assets				7,639	7,639
30 June 2023	4,989	11,553	381,742	8,262	406,546
Cash and balances at central banks			73,065		73,065
Derivatives (1)	4,407				4,407
Loans to banks - amortised cost (2)			3,197		3,197
Loans to customers - amortised cost (3)			301,684		301,684
Amounts due from holding companies and fellow subsidiaries	5		4,173	725	4,903
Other financial assets	417	9,713	4,416		14,546
Other assets				7,667	7,667
31 December 2022	4,829	9,713	386,535	8,392	409,469

	Held-for-trading £m	Amortised cost £m	Other liabilities £m	Total £m
Liabilities				
Bank deposits		17,014		17,014
Customer deposits		307,491		307,491
Amounts due to holding companies and fellow subsidiaries	119	43,544	150	43,813
Derivatives (1)	1,751			1,751
Other financial liabilities	73	10,926		10,999
Subordinated liabilities		122		122
Notes in circulation		798		798
Other liabilities (4)		843	2,442	3,285
30 June 2023	1,943	380,738	2,592	385,273
Bank deposits		16,060		16,060
Customer deposits		322,614		322,614
Amounts due to holding companies and fellow subsidiaries	104	38,511	156	38,771
Derivatives (1)	2,088			2,088
Other financial liabilities	17	5,367		5,384
Subordinated liabilities		197		197
Notes in circulation		809		809
Other liabilities (4)		960	2,510	3,470
31 December 2022	2,209	384,518	2,666	389,393

(1) Includes net hedging derivative assets of £972 million (31 December 2022 – £743 million) and net hedging derivative liabilities of £316 million (31 December 2022 - £258 million).
(2) Includes items in the course of collection from other banks of £5 million (31 December 2022 - £2 million).
(3) Includes finance lease receivables of £8,675 million (31 December 2022 - £8,324 million).
(4) Includes lease liabilities of £782 million (31 December 2022 - £901 million), held at amortised cost.

Notes

6. Financial instruments – classification continued

NWB Group's financial assets and liabilities include amounts due from/to holding companies and fellow subsidiaries as below:

	30 June 2023			31 December 2022		
	Holding companies £m	Fellow subsidiaries £m	Total £m	Holding companies £m	Fellow subsidiaries £m	Total £m
Assets						
Loans to banks - amortised cost	—	6,339	6,339	—	4,100	4,100
Loans to customers - amortised cost	—	48	48	—	73	73
Other financial assets	—	5	5	—	5	5
Other assets	104	519	623	15	710	725
Amounts due from holding companies and fellow subsidiaries	104	6,911	7,015	15	4,888	4,903
Derivatives (1)	321	3,511	3,832	405	2,977	3,382
Liabilities						
Bank deposits	—	28,923	28,923	—	22,919	22,919
Customer deposits	4,853	27	4,880	6,264	46	6,310
Subordinated liabilities	3,432	—	3,432	2,941	—	2,941
MREL instruments issued to NatWest Holdings Ltd	6,309	—	6,309	6,339	—	6,339
Other financial liabilities	—	119	119	—	106	106
Other liabilities	16	134	150	33	123	156
Amounts due to holding companies and fellow subsidiaries	14,610	29,203	43,813	15,577	23,194	38,771
Derivatives (1)	475	644	1,119	403	667	1,070

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

Notes

6. Financial instruments - valuation

Disclosures relating to the control environment, valuation techniques and related aspects pertaining to financial instruments measured at fair value are included in NatWest Bank Plc's 2022 Annual Report and Accounts. Valuation, sensitivity methodologies and inputs at 30 June 2023 are consistent with those described in Note 10 to NatWest Bank Plc's 2022 Annual Report and Accounts.

Fair value hierarchy

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

	30 June 2023				31 December 2022			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets								
Derivatives	**—**	**4,713**	**23**	**4,736**	—	4,387	20	4,407
Amounts due from holding companies and fellow subsidiaries	**—**	**5**	**—**	**5**	—	5	—	5
Other financial assets								
Securities	**5,810**	**5,741**	**2**	**11,553**	5,105	4,606	2	9,713
Loans	**—**	**132**	**116**	**248**	—	369	48	417
Total financial assets held at fair value	**5,810**	**10,591**	**141**	**16,542**	5,105	9,367	70	14,542
As % of total value assets	**35%**	**64%**	**1%**		35%	65%	0%	
Liabilities								
Derivatives	**—**	**1,745**	**6**	**1,751**	—	2,081	7	2,088
Amounts due to holding companies and fellow subsidiaries	**—**	**119**	**—**	**119**	—	104	—	104
Other financial liabilities								
Deposits	**—**	**73**	**—**	**73**	—	17	—	17
Total financial liabilities held at fair value	**—**	**1,937**	**6**	**1,943**	—	2,202	7	2,209
As % of total fair value liabilities	**—**	**100%**	**0%**		—	100%	0%	

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

(2) Transfers between levels are deemed to have occurred at the beginning of the quarter in which the instruments were transferred.

Notes

6. Financial instruments – valuation continued

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

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

30 June 2023	Items where fair value approximates carrying value £bn	Carrying value £bn	Fair value £bn	Fair value hierarchy level Level 1 £bn	Level 2 £bn	Level 3 £bn
Financial assets						
Cash and balances at central banks	**52.5**					
Loans to banks	**0.1**	**3.6**	**3.6**	**—**	**3.2**	**0.4**
Loans to customers		**312.3**	**298.7**	**—**	**21.2**	**277.5**
Amounts due from holding companies and fellow subsidiaries		**6.4**	**6.4**	**—**	**0.3**	**6.1**
Other financial assets						
Securities		**6.8**	**6.7**	**2.7**	**3.6**	**0.4**
Settlement balances	**0.2**					
31 December 2022						
Financial assets						
Cash and balances at central banks	73.1					
Loans to banks	—	3.2	3.2	—	2.7	0.5
Loans to customers		301.7	290.8	—	19.4	271.4
Amounts due from holding companies and fellow subsidiaries		4.2	4.1	—	—	4.1
Other financial assets						
Securities		4.4	4.3	0.8	3.1	0.4
Settlement balances	—					
30 June 2023						
Financial liabilities						
Bank deposits	**3.3**	**13.7**	**13.5**	**—**	**13.2**	**0.3**
Customer deposits	**270.8**	**36.7**	**36.8**	**—**	**16.4**	**20.4**
Amounts due to holding companies and fellow subsidiaries	**0.4**	**43.2**	**43.2**	**—**	**10.0**	**33.2**
Other financial liabilities						
Debt securities in issue		**10.6**	**10.6**	**—**	**2.1**	**8.5**
Settlement balances	**0.3**					
Subordinated liabilities		**0.1**	**0.1**	**—**	**0.1**	**—**
Notes in circulation	**0.8**					
31 December 2022						
Financial liabilities						
Bank deposits	3.4	12.7	12.3	—	12.3	—
Customer deposits	294.9	27.7	27.7	—	11.9	15.8
Amounts due to holding companies and fellow subsidiaries	0.8	37.7	37.2	—	8.9	28.3
Other financial liabilities						
Debt securities in issue		5.4	5.4	—	2.9	2.5
Settlement balances	—					
Subordinated liabilities		0.2	0.2	—	0.2	—
Notes in circulation	0.8					

Notes

6. Financial instruments – valuation continued

The assumptions and methodologies underlying the calculation of fair values of financial instruments at the balance sheet date are as follows:

Short-term financial instruments

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

Loans to banks and customers

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

Debt securities and subordinated liabilities

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

Bank and customer deposits

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

Notes

7. Loan impairment provisions

Economic loss drivers

Introduction

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

The most significant economic loss drivers for the most material portfolios are shown in the table below.

Portfolio	Economic loss drivers
UK Personal mortgages	UK unemployment rate, sterling swap rate, UK house price index, UK household debt to income
UK Personal unsecured	UK unemployment rate, sterling swap rate, UK household debt to income
UK corporates	UK stock price index, UK gross domestic product (GDP), Bank of England base rate
UK commercial real estate	UK stock price index, UK commercial property price index, UK GDP, Bank of England base rate

Economic scenarios

At 30 June 2023, the range of anticipated future economic conditions was defined by a set of four internally developed scenarios and their respective probabilities. In addition to the base case, they comprised upside, downside and extreme downside scenarios. The scenarios primarily reflected the current risks faced by the economy, particularly related to persistently high inflation and interest rate environment, resulting in a fall in real household income, economic slowdown, a rise in unemployment and asset price declines.

For 30 June 2023, the four scenarios were deemed appropriate in capturing the uncertainty in economic forecasts and the non-linearity in outcomes under different scenarios. These four scenarios were developed to provide sufficient coverage across potential rises in unemployment, inflation, asset price declines and the degree of permanent damage to the economy, around which there remains pronounced levels of uncertainty.

Upside – This scenario assumes robust growth as inflation falls sharply and rates are lowered. Consumer spending is supported by savings built up since COVID-19 and further helped by fiscal support and strong business investment. The labour market remains resilient, with the unemployment rate remaining below pre-COVID-19 levels. The housing market slows down compared to the previous year but remains robust.

Base case – In the midst of high inflation and significant monetary policy tightening, economic growth remains muted. However, recession is avoided as only a relatively small proportion of households are directly affected by the rise in mortgage costs. The unemployment rate rises modestly but job losses are contained. Inflation moderates over the medium-term and falls to the target level of 2%. The housing market experiences price decline and lower activity but the extent of the decline is lower than that experienced during prior stresses.

Since 31 December 2022, the economic outlook has improved as energy prices fell sharply and the labour market remained resilient. However, the inflation outlook remains elevated due to higher core inflation pressure. As a result, interest rates need to rise higher than assumed previously. The base case now assumes muted growth in 2023 as opposed to a mild recession assumed previously. The unemployment rate still rises but the peak is lower, reflecting the labour market's recent resilience. The peak to trough house price correction remains broadly similar to the previous assumption.

Downside – Inflation remains persistently high. The economy experiences a recession as consumer confidence weakens due to a fall in real income. Interest rates are raised higher than the base case and remain elevated for longer. High rates are assumed to have a more significant impact on the labour market. Unemployment is higher than the base case scenario while house prices experience declines comparable to previous episodes of stress.

The previous year's downside scenario also included a deep recession, labour market deterioration and asset price falls, but the current downside scenario explores these risks in a persistently high inflation, high rates environment.

Extreme downside – This scenario assumes high and persistent inflation. Households see the highest recorded decline in real income. Interest rates rise to levels last observed in early 2000. Resulting economic recession is deep and leads to widespread job losses. House prices lose approximately a third of their value while the unemployment rate rises to a level above that observed during the 2008 financial crisis.

The main macroeconomic variables for each of the four scenarios used for expected credit loss (ECL) modelling are set out in the main macroeconomic variables table below.

7. Loan impairment provisions continued

Main macroeconomic variables

	30 June 2023					31 December 2022				
	Upside	Base case	Downside	Extreme downside	Weighted average	Upside	Base case	Downside	Extreme downside	Weighted average
Five-year summary	%	%	%	%	%	%	%	%	%	%
GDP	**1.8**	**0.9**	**0.4**	**(0.2)**	**0.8**	2.2	1.3	0.8	0.4	1.2
Unemployment	**3.5**	**4.2**	**4.9**	**6.6**	**4.6**	3.9	4.5	4.9	6.7	4.8
House price index	**3.8**	**0.3**	**(0.8)**	**(6.0)**	**—**	5.1	0.8	(0.7)	(4.4)	0.6
Commercial real estate price	**3.3**	**0.2**	**(2.7)**	**(7.6)**	**(0.7)**	1.2	(1.9)	(2.8)	(9.1)	(2.5)
Consumer price index	**1.7**	**2.3**	**4.2**	**3.7**	**2.8**	3.6	4.2	4.4	8.2	4.8
Bank of England base rate	**2.6**	**4.2**	**5.0**	**5.1**	**4.2**	2.4	3.1	1.5	4.5	2.8
UK stock price index	**5.8**	**4.3**	**1.8**	**0.1**	**3.5**	3.0	1.4	(1.1)	(3.7)	0.5
World GDP	**3.7**	**3.1**	**2.7**	**1.0**	**2.8**	3.7	3.3	1.7	1.1	2.7
Probability weight	**19.5**	**45.0**	**21.5**	**14.0**		18.6	45.0	20.8	15.6	

(1) The five year summary runs from 2023-2027 for 30 June 2023.
(2) The table shows five calendar year CAGR for GDP, average for unemployment and Bank of England base rate and 20-quarter CAGR for other parameters.
(3) Comparatives have been aligned with the current calculation approach.

Probability weightings of scenarios

NWB Group's quantitative approach to IFRS 9 multiple economic scenarios (MES) involves selecting a suitable set of discrete scenarios to characterise the distribution of risks in the economic outlook and assigning appropriate probability weights. This quantitative approach is used for 30 June 2023.

The approach involves comparing UK GDP paths for NWB Group's scenarios against a set of 1,000 model runs, following which, a percentile in the distribution is established that most closely corresponded to the scenario. Probability weight for base case is set first based on judgement, while probability weights for the alternate scenarios are assigned based on these percentiles scores.

The assigned probability weights were judged to be aligned with the subjective assessment of balance of the risks in the economy. The weights were broadly comparable to those used at 31 December 2022. Since then, the outlook has improved across key areas of the economy. However, the risks still remain elevated and there is considerable uncertainty in the economic outlook, particularly with respect to persistence and the range of outcomes on inflation. Given that backdrop, NWB Group judges it appropriate that downside-biased scenarios have higher probability weights than the upside-biased scenario. It presents good coverage to the range of outcomes assumed in the scenarios, including the potential for a robust recovery on the upside and exceptionally challenging outcomes on the downside. A 19.5% weighting was applied to the upside scenario, a 45.0% weighting applied to the base case scenario, a 21.5% weighting applied to the downside scenario and a 14.0% weighting applied to the extreme downside scenario.

Notes
7. Loan impairment provisions continued
Annual figures

GDP - annual growth	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2023	1.4	0.3	—	(0.3)	0.3
2024	3.8	0.8	(1.4)	(4.1)	0.3
2025	1.4	1.0	1.0	0.9	1.1
2026	1.2	1.3	1.2	1.2	1.2
2027	1.2	1.4	1.3	1.2	1.3
2028	1.2	1.4	1.3	1.2	1.3

Unemployment rate - annual average	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2023	3.9	3.9	4.1	4.3	4.0
2024	3.3	4.2	5.1	7.3	4.7
2025	3.3	4.4	5.3	7.7	4.8
2026	3.4	4.3	5.1	7.1	4.7
2027	3.4	4.3	4.9	6.5	4.6
2028	3.4	4.3	4.7	6.0	4.4

House price index - four quarter change	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2023	(3.3)	(6.9)	(6.2)	(8.2)	(6.2)
2024	10.4	(1.0)	(13.2)	(14.1)	(3.1)
2025	6.1	2.9	0.9	(16.4)	0.9
2026	3.1	3.4	8.5	4.3	4.4
2027	3.5	3.4	7.9	6.8	4.7
2028	3.4	3.4	5.5	5.0	4.0

Commercial real estate price - four quarter change	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2023	1.1	(5.8)	(7.8)	(10.7)	(5.6)
2024	5.5	0.5	(13.4)	(35.3)	(6.1)
2025	4.6	2.5	2.5	2.5	3.0
2026	3.8	2.5	3.6	6.3	3.4
2027	1.8	1.3	3.0	6.9	2.3
2028	1.5	1.3	2.2	4.2	1.8

Consumer price index - four quarter change	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2023	1.6	3.4	5.5	7.0	4.0
2024	1.1	2.3	4.3	6.8	3.2
2025	1.8	1.9	3.9	1.7	2.3
2026	1.9	1.9	3.8	1.2	2.2
2027	1.9	1.9	3.7	2.1	2.3
2028	1.9	1.9	3.2	2.1	2.2

Bank of England base rate - annual average	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2023	4.3	4.8	4.7	4.8	4.7
2024	3.0	5.0	5.5	6.0	4.9
2025	2.3	4.2	5.0	5.7	4.2
2026	2.0	3.7	4.9	4.9	3.8
2027	1.6	3.3	4.7	4.1	3.4
2028	1.5	3.2	4.5	3.4	3.2

UK stock price index - four quarter change	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2023	13.0	9.1	(9.2)	(26.6)	0.9
2024	5.7	3.1	(1.9)	(9.4)	1.4
2025	4.1	3.1	9.7	21.2	6.2
2026	3.6	3.1	6.5	12.9	4.9
2027	3.2	3.1	5.3	10.2	4.3
2028	3.0	3.1	5.3	6.4	3.9

Notes

7. Loan impairment provisions continued

Worst points

	30 June 2023					31 December 2022				
	Downside %	Quarter	Extreme downside %	Quarter	Weighted average %	Downside %	Quarter	Extreme downside %	Quarter	Weighted average %
GDP	(1.7)	Q2 2024	(4.9)	Q2 2024	0.1	(3.2)	Q4 2023	(4.7)	Q4 2023	(0.8)
Unemployment rate - peak	5.4	Q1 2025	8.0	Q4 2024	4.9	6.0	Q1 2024	8.5	Q3 2024	5.4
House price index	(18.9)	Q1 2025	(34.3)	Q1 2026	(9.2)	(15.0)	Q1 2025	(26.2)	Q3 2025	(3.4)
Commercial real estate price	(20.1)	Q4 2024	(42.6)	Q1 2025	(11.3)	(21.8)	Q4 2023	(46.8)	Q3 2024	(16.4)
Consumer price index										
- highest four quarter change	10.1	Q1 2023	10.1	Q1 2023	10.1	15.7	Q1 2023	17.0	Q4 2023	11.7
Bank of England base rate										
- extreme level	5.8	Q1 2024	6.0	Q1 2024	5.3	4.0	Q1 2023	6.0	Q1 2024	4.1
UK stock price index	(15.5)	Q2 2024	(40.9)	Q2 2024	(1.1)	(26.0)	Q4 2023	(48.7)	Q4 2023	(14.1)

(1) Unless specified otherwise, the figures show falls relative to the starting period. The calculations are performed over five years, with a starting point of Q4 2022 for 30 June 2023 scenarios.
(2) Comparatives have been aligned with the current calculation approach.

Use of the scenarios in Personal lending

Personal lending follows a discrete scenario approach. The probability of default (PD), exposure at default (EAD), loss given default (LGD) and resultant ECL for each discrete scenario is calculated using product specific economic response models. Probability weighted averages across the suite of economic scenarios are then calculated for each of the model outputs, with the weighted PD being used for staging purposes.

Business Banking utilises the Personal lending methodology rather than the Wholesale lending methodology.

Use of the scenarios in Wholesale lending

The Wholesale lending scenario methodology is based on the concept of credit cycle indices (CCIs). The CCIs represent, similar to the exogenous component in Personal, all relevant economic drivers for a region/industry segment aggregated into a single index value that describes the credit conditions in the respective segment relative to its long-run average. A CCI value of zero corresponds to credit conditions at long-run average levels, a positive CCI value corresponds to credit conditions below long run average levels and a negative CCI value corresponds to credit conditions above long-run average levels.

The individual economic scenarios are translated into forward-looking projections of CCIs using a set of econometric models. Subsequently the CCI projections for the individual scenarios are averaged into a single central CCI projection according to the given scenario probabilities. The central CCI projection is then extended with an additional mean reversion assumption to gradually revert to the long-run average CCI value of zero in the outer years of the projection horizon.

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

UK economic uncertainty

The high inflation environment alongside rapidly rising interest rates and supply chain disruption are presenting significant headwinds for some businesses and consumers. These are a result of various factors and in many cases are compounding and look set to remain a feature of the economic environment into 2024. NWB Group has considered where these are most likely to affect the customer base, with the rising cost of borrowing during 2023 for both businesses and consumers presenting an additional affordability challenge for many borrowers in recent months.

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

7. Loan impairment provisions continued

Governance and post model adjustments

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

- Deferred model calibrations – ECL adjustments where model monitoring and similar analyses indicates that model adjustments will be required to ensure ECL adequacy. As a consequence, an estimate of the ECL impact is recorded on the balance sheet until modelled ECL levels are affirmed by new model parallel runs or similar analyses.
- Economic uncertainty – ECL adjustments primarily arising from uncertainties associated with high inflation and rapidly rising interest rates as well as supply chain disruption, along with the residual effects from COVID-19 government support schemes. In all cases, management judged that additional ECL was required until further credit performance data became available as the observable effects of these issues crystallise.
- Other adjustments – ECL adjustments where it was judged that the modelled ECL required amendment.

Post model adjustments will remain a key focus area of NWB Group's ongoing ECL adequacy assessment process. A holistic framework has been established including reviewing a range of economic data, external benchmark information and portfolio performance trends with a particular focus on segments of the portfolio (both commercial and consumer) that are likely to be more susceptible to high inflation, rapidly rising interest rates and supply chain disruption, where risks may not be fully captured by the models.

ECL post model adjustments

The table below shows ECL post model adjustments.

	Retail Banking			Commercial	
	Mortgages	Other	Private Banking	& Institutional	Total
30 June 2023	**£m**	**£m**	**£m**	**£m**	**£m**
Deferred model calibrations	**—**	**—**	**—**	**14**	**14**
Economic uncertainty	**105**	**34**	**12**	**225**	**376**
Other adjustments	**7**	**—**	**—**	**8**	**15**
Total	**112**	**34**	**12**	**247**	**405**
Of which:					
- Stage 1	***70***	***15***	***6***	***85***	***176***
- Stage 2	***31***	***19***	***6***	***158***	***214***
- Stage 3	***11***	**—**	**—**	***4***	***15***
31 December 2022					
Economic uncertainty	91	40	6	151	288
Other adjustments	7	15	—	11	33
Total	98	55	6	162	321
Of which:					
- Stage 1	*58*	*21*	*3*	*50*	*132*
- Stage 2	*29*	*34*	*3*	*108*	*174*
- Stage 3	*11*	—	—	*4*	*15*

Notes

7. Loan impairment provisions continued

Post model adjustments increased since 31 December 2022, with a notable shift in economic uncertainty reflecting rapidly rising interest rates and high inflation.

- *Retail Banking* – The post model adjustment for economic uncertainty increased from £131 million at 31 December 2022 to £139 million at 30 June 2023, with recent interest rate rises resulting in higher levels of mortgage customers at risk of financial difficulties and prompting an uplift in the cost of living post model adjustment (up from £112 million to £120 million). The cost of living post model adjustment captures the risk on segments in the Retail Banking portfolio that are more susceptible to the effects of cost of living rises, focusing on key affordability lenses, including customers with lower incomes in fuel poverty, over-indebted borrowers and customers vulnerable to a potential mortgage rate shock effect on their affordability.
- The £15 million other judgemental overlay for EAD modelling dynamics in credit cards was no longer required.
- *Commercial & Institutional* – The post model adjustment for economic uncertainty increased from £151 million at 31 December 2022 to £225 million at 30 June 2023. It still includes an overlay of £62 million to cover the residual risks from COVID-19, including the risk that government support schemes could affect future recoveries and concerns surrounding associated debt, to customers that have utilised government support schemes. The inflation and supply chain post model adjustment has been maintained with a mechanistic adjustment, via a sector-level downgrade, being applied to the sectors that were considered most at risk from these headwinds. A number of additional sectors have been included in the sector-level downgrade reflecting the pressures from inflation plus broader concerns around liquidity and reducing cash reserves across many sectors. The impact of the sector-level downgrades is a post model adjustment increase from £61 million at 31 December 2022 to £163 million at 30 June 2023, reflecting the significant headwinds for a number of sectors which are not fully captured in the models.
- The £14 million judgemental overlay for deferred model calibrations relates to refinance risk with the existing mechanistic modelling approach not fully capturing the risk on deteriorated exposures.
- Other adjustments include an overlay of £8 million to mitigate the effect of operational timing delays in the identification and flagging of a SICR.

Measurement uncertainty and ECL sensitivity analysis

The recognition and measurement of ECL is complex and involves the use of significant judgment and estimation, particularly in times of economic volatility and uncertainty. This includes the formulation and incorporation of multiple forward-looking economic 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 impact arising from the base case, upside, downside and extreme downside scenarios was simulated. These scenarios are used in the methodology for Personal multiple economic scenarios as described in the Economic loss drivers section. In the simulations, NWB Group has assumed that the economic macro variables associated with these scenarios replace the existing base case economic assumptions, giving them a 100% probability weighting and therefore serving as a single economic scenario.

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

The focus of the simulations is on ECL provisioning requirements on performing exposures in Stage 1 and Stage 2. The simulations are run on a stand-alone basis and are independent of each other; the potential ECL impacts reflect the simulated impact at 30 June 2023. Scenario impacts on SICR should be considered when evaluating the ECL movements of Stage 1 and Stage 2. In all scenarios the total exposure was the same but exposure by stage varied in each scenario.

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

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

Notes

7. Loan impairment provisions continued

Measurement uncertainty and ECL sensitivity analysis

30 June 2023	Actual	Base scenario	Moderate upside scenario	Moderate downside scenario	Extreme downside scenario
Stage 1 modelled loans (£m)					
Retail Banking - mortgages	158,081	157,591	158,573	158,053	150,266
Retail Banking - unsecured	6,631	6,667	6,893	6,501	5,923
Wholesale - property	18,025	18,256	18,344	17,727	11,425
Wholesale - non-property	76,760	77,875	78,457	75,775	55,282
	259,497	260,389	262,267	258,056	222,896
Stage 1 modelled ECL (£m)					
Retail Banking - mortgages	81	78	76	82	78
Retail Banking - unsecured	157	159	158	156	138
Wholesale - property	74	57	46	96	95
Wholesale - non-property	195	169	146	240	232
	507	463	426	574	543
Stage 2 modelled loans (£m)					
Retail Banking - mortgages	17,488	17,978	16,996	17,516	25,303
Retail Banking - unsecured	2,744	2,708	2,482	2,874	3,452
Wholesale - property	2,595	2,364	2,276	2,893	9,195
Wholesale - non-property	13,289	12,174	11,592	14,274	34,767
	36,116	35,224	33,346	37,557	72,717
Stage 2 modelled ECL (£m)					
Retail Banking - mortgages	57	58	40	58	104
Retail Banking - unsecured	307	301	247	331	423
Wholesale - property	75	61	49	90	410
Wholesale - non-property	331	277	231	396	1,032
	770	697	567	875	1,969
Stage 1 and Stage 2 modelled loans (£m)					
Retail Banking - mortgages	175,569	175,569	175,569	175,569	175,569
Retail Banking - unsecured	9,375	9,375	9,375	9,375	9,375
Wholesale - property	20,620	20,620	20,620	20,620	20,620
Wholesale - non-property	90,049	90,049	90,049	90,049	90,049
	295,613	295,613	295,613	295,613	295,613
Stage 1 and Stage 2 modelled ECL (£m)					
Retail Banking - mortgages	138	136	116	140	182
Retail Banking - unsecured	464	460	405	487	561
Wholesale - property	149	118	95	186	505
Wholesale - non-property	526	446	377	636	1,264
	1,277	1,160	993	1,449	2,512
Stage 1 and Stage 2 coverage (%)					
Retail Banking - mortgages	0.08	0.08	0.07	0.08	0.10
Retail Banking - unsecured	4.95	4.91	4.32	5.19	5.98
Wholesale - property	0.72	0.57	0.46	0.90	2.45
Wholesale - non-property	0.58	0.50	0.42	0.71	1.40
	0.43	0.39	0.34	0.49	0.85
Reconciliation to Stage 1 and Stage 2 ECL (£m)					
ECL on modelled exposures	1,277	1,160	993	1,449	2,512
ECL on non-modelled exposures	33	33	33	33	33
Total Stage 1 and Stage 2 ECL	1,310	1,193	1,026	1,482	2,545
Variance to actual total Stage 1 and Stage 2 ECL		(117)	(284)	172	1,235

30 June 2023	Actual	Base scenario	Moderate upside scenario	Moderate downside scenario	Extreme downside scenario
Reconciliation to Stage 1 and Stage 2 flow exposure (£m)					
Modelled loans	295,613	295,613	295,613	295,613	295,613
Non-modelled loans	18,523	18,523	18,523	18,523	18,523
Other asset classes	65,228	65,228	65,228	65,228	65,228

(1) Variations in future undrawn exposure values across the scenarios are modelled, however the exposure position reported is that used to calculate modelled ECL as at 30 June 2023 and therefore does not include variation in future undrawn exposure values.
(2) Reflects ECL for all modelled exposure in scope for IFRS 9. The analysis excludes non-modelled portfolios.
(3) All simulations are run on a stand-alone basis and are independent of each other, with the potential ECL impact reflecting the simulated impact as at 30 June 2023. The simulations change the composition of Stage 1 and Stage 2 exposure but total exposure is unchanged under each scenario as the loan population is static.
(4) Refer to the Economic loss drivers section for details of economic scenarios.
(5) Refer to the NatWest Bank Plc 2022 Annual Report and Accounts for 31 December 2022 comparatives.

7. Loan impairment provisions continued

Measurement uncertainty and ECL adequacy

- During H1 2023, overall modelled ECL remained stable reflecting portfolio growth coupled with stable portfolio performance offset by the H1 2023 economics update ECL reduction at 30 June 2023. Judgemental ECL post model adjustments, increased from 31 December 2022, reflecting the increased economic uncertainty and the expectation of increased defaults in H2 2023 and beyond, and represented 15% of total ECL (31 December 2022 – 12%).
- If the economics were as negative as observed in the extreme downside, total Stage 1 and Stage 2 ECL was simulated to increase by £1.2 billion (approximately 94%). In this scenario, Stage 2 exposure increased significantly and was the key driver of the simulated ECL rise. The movement in Stage 2 balances in the other simulations was less significant.
- In the Wholesale portfolio, there was a significant increase in ECL under both a moderate and extreme downside scenario. The Wholesale property ECL increase was mainly due to commercial real estate prices which show negative growth until 2024 and significant deterioration in the stock index. The non-property increase was mainly due to GDP contraction and significant deterioration in the stock index.
- The changes in the economic outlook and scenarios used in the IFRS 9 MES framework at 30 June 2023 resulted in a decrease in modelled ECL. Given that continued uncertainty remains due to high inflation, rapidly rising interest rates and supply chain disruption, NWB Group utilised a framework of quantitative and qualitative measures to support the levels of ECL coverage, including economic data, credit performance insights, supply chain contagion analysis and problem debt trends. This was particularly important for consideration of post model adjustments.
- As the effects of high inflation, rapidly rising interest rates and supply chain disruption evolve during 2023 and into 2024, there is a risk of credit deterioration. However, the income statement effect of this should have been mitigated by the forward-looking provisions retained on the balance sheet at 30 June 2023.
- There are a number of key factors that could drive further downside to impairments, through deteriorating economic and credit metrics and increased stage migration as credit risk increases for more customers. Such factors which could impact the IFRS 9 models, include an adverse deterioration in GDP and unemployment in the economies in which NWB Group operates.

7. Loan impairment provisions continued

Loan exposure and impairment metrics

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

	30 June 2023 £m	31 December 2022 £m
Loans - amortised cost		
Stage 1	279,340	266,722
Stage 2	35,660	37,216
Stage 3	4,102	3,783
Inter-Group (1)	6,392	4,220
Total	325,494	311,941
ECL provisions (2)		
Stage 1	532	506
Stage 2	778	813
Stage 3	1,383	1,262
Inter-Group	6	4
	2,699	2,585
ECL provisions coverage (3)		
Stage 1 (%)	0.19	0.19
Stage 2 (%)	2.18	2.18
Stage 3 (%)	33.72	33.36
Inter-Group (%)	0.09	0.09
	0.84	0.84

	Half year ended	
	30 June 2023 £m	30 June 2022 £m
Impairment losses		
ECL (release)/charge (4)		
Stage 1	(167)	(292)
Stage 2	237	179
Stage 3	119	94
Third party	189	(19)
Inter-Group	2	1
	191	(18)
Amounts written-off	88	121

(1) NWB Group's intercompany assets were classified in Stage 1.
(2) Includes £4 million (31 December 2022 – £2 million) related to assets classified as FVOCI.
(3) ECL provisions coverage is calculated as ECL provisions divided by loans – amortised cost and FVOCI. It is calculated on third party loans and total ECL provisions.
(4) Includes £2 million (30 June 2022 – nil) related to other financial assets, of which £1 million (30 June 2022 – nil) related to assets classified as FVOCI; and nil (30 June 2022 – £2 million release) related to contingent liabilities.
(5) The table shows gross loans only and excludes amounts that were outside the scope of the ECL framework. Refer to page 33 for Financial instruments within the scope of the IFRS 9 ECL framework in the NatWest Bank Plc 2022 Annual Report and Accounts for further details. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totaling £51.9 billion (31 December 2022 – £72.5 billion) and debt securities of £18.0 billion (31 December 2022 – £14.1 billion).

- Stage 1 and Stage 2 modelled ECL remained broadly unchanged with stable portfolio performance and latest MES scenario update modelled ECL reduction being offset by increased post model adjustments to reflect growing economic uncertainty due to high inflation and rapidly rising interest rates.
- Stage 2 loans decreased during H1 2023, primarily within Wholesale portfolios, in line with the modelled ECL reduction, linked to the update of MES forward-looking economics at H1 2023. The latest MES scenario update captures a lower unemployment peak and better GDP outlook, offset by higher inflation and interest rates.
- Stage 3 loans increased, primarily due to reduced write-off activity in H1 2023.
- As previously mentioned, in Personal, the flows into default remained relatively stable and broadly in-line with post-COVID-19 lending strategy expectations and for Wholesale portfolios, with the exception of BBLS, default levels were lower than historic trends. However, it is expected that defaults will increase as growing inflationary pressures on businesses, consumers and the broader economy continue to evolve, particularly given the rapid rise in interest rates.

7. Loan impairment provisions continued

Sector analysis

The table below shows ECL by stage, for the Personal portfolios and selected sectors of the Wholesale portfolios.

	Loans - amortised cost				Off-balance sheet		ECL provisions			
	Stage 1	Stage 2	Stage 3	Total	Loan commitments	Contingent liabilities	Stage 1	Stage 2	Stage 3	Total
30 June 2023	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Personal	**182,969**	**20,124**	**2,412**	**205,505**	**33,214**	**45**	**251**	**367**	**832**	**1,450**
Mortgages	**174,238**	**17,476**	**1,577**	**193,291**	**12,900**	**—**	**86**	**57**	**167**	**310**
Credit cards	**2,871**	**1,190**	**95**	**4,156**	**13,179**	**—**	**48**	**116**	**65**	**229**
Other personal	**5,860**	**1,458**	**740**	**8,058**	**7,135**	**45**	**117**	**194**	**600**	**911**
Wholesale	**96,371**	**15,536**	**1,690**	**113,597**	**56,934**	**2,463**	**281**	**411**	**551**	**1,243**
Property	**19,132**	**2,646**	**428**	**22,206**	**10,443**	**309**	**73**	**76**	**129**	**278**
Financial institutions	**27,024**	**243**	**24**	**27,291**	**3,654**	**226**	**15**	**6**	**9**	**30**
Sovereign	**3,674**	**125**	**25**	**3,824**	**300**	**—**	**7**	**1**	**1**	**9**
Corporate	**46,541**	**12,522**	**1,213**	**60,276**	**42,537**	**1,928**	**186**	**328**	**412**	**926**
Of which:										
Agriculture	***3,148***	***938***	***80***	***4,166***	***753***	***17***	***13***	***28***	***25***	***66***
Airlines and aerospace	***1,109***	***424***	***12***	***1,545***	***877***	***150***	***4***	***9***	***6***	***19***
Automotive	***6,163***	***796***	***26***	***6,985***	***3,351***	***38***	***20***	***16***	***10***	***46***
Chemicals	***335***	***55***	***1***	***391***	***702***	***11***	***2***	***1***	***1***	***4***
Health	***2,629***	***805***	***87***	***3,521***	***416***	***4***	***13***	***25***	***28***	***66***
Industrial	***1,857***	***698***	***73***	***2,628***	***2,612***	***120***	***7***	***17***	***15***	***39***
Land transport and logistics	***3,495***	***801***	***26***	***4,322***	***2,672***	***124***	***11***	***16***	***11***	***38***
Leisure	***3,161***	***2,475***	***162***	***5,798***	***1,487***	***124***	***23***	***78***	***63***	***164***
Mining and metals	***183***	***38***	***2***	***223***	***358***	***2***	***—***	***—***	***1***	***1***
Oil and gas	***569***	***48***	***25***	***642***	***1,151***	***129***	***2***	***1***	***25***	***28***
Power utilities	***4,128***	***353***	***46***	***4,527***	***5,730***	***456***	***10***	***14***	***7***	***31***
Retail	***4,078***	***1,284***	***211***	***5,573***	***3,439***	***281***	***19***	***33***	***75***	***127***
Shipping	***162***	***69***	***3***	***234***	***61***	***20***	***—***	***3***	***3***	***6***
Water and waste	**3,375**	**370**	**15**	**3,760**	**1,866**	**78**	**4**	**4**	**4**	**12**
Total	**279,340**	**35,660**	**4,102**	**319,102**	**90,148**	**2,508**	**532**	**778**	**1,383**	**2,693**
31 December 2022										
Personal	176,925	18,941	2,195	198,061	35,160	51	220	373	730	1,323
Mortgages	168,675	16,511	1,464	186,650	15,894	—	75	55	148	278
Credit cards	2,590	834	85	3,509	12,287	—	48	92	57	197
Other personal	5,660	1,596	646	7,902	6,979	51	97	226	525	848
Wholesale	89,797	18,275	1,588	109,660	53,863	2,988	286	440	532	1,258
Property	18,379	2,874	431	21,684	9,879	328	80	75	120	275
Financial institutions	23,748	653	35	24,436	3,344	252	15	9	14	38
Sovereign	3,824	79	24	3,927	411	—	9	1	—	10
Corporate	43,846	14,669	1098	59,613	40,229	2,408	182	355	398	935
Of which:										
Agriculture	*3,065*	*824*	*67*	*3,956*	*739*	*17*	*17*	*25*	*29*	*71*
Airlines and aerospace	*367*	*1048*	*17*	*1,432*	*919*	*61*	*2*	*37*	*7*	*46*
Automotive	*5,270*	*1,409*	*20*	*6,699*	*3,194*	*41*	*17*	*16*	*8*	*41*
Chemicals	*323*	*113*	*1*	*437*	*546*	*11*	*1*	*2*	*1*	*4*
Health	*2,812*	*764*	*96*	*3,672*	*394*	*2*	*16*	*20*	*29*	*65*
Industrial	*1,923*	*694*	*73*	*2,690*	*2,638*	*129*	*8*	*13*	*19*	*40*
Land transport and logistics	*3,184*	*1,045*	*22*	*4,251*	*2,694*	*129*	*11*	*29*	*9*	*49*
Leisure	*2,769*	*2,855*	*174*	*5,798*	*1,386*	*51*	*22*	*97*	*84*	*203*
Mining and metals	*157*	*40*	*2*	*199*	*349*	*2*	*—*	*1*	*1*	*2*
Oil and gas	*608*	*111*	*37*	*756*	*1,079*	*136*	*2*	*1*	*27*	*30*
Power utilities	*3,715*	*404*	*1*	*4,120*	*3,916*	*1115*	*9*	*11*	*—*	*20*
Retail	*4,919*	*1,248*	*126*	*6,293*	*3,475*	*335*	*17*	*25*	*56*	*98*
Shipping	*141*	*129*	*14*	*284*	*78*	*14*	*—*	*6*	*6*	*12*
Water and waste	*2,970*	*303*	*7*	*3,280*	*1,796*	*79*	*4*	*4*	*4*	*12*
Total	266,722	37,216	3,783	307,721	89,023	3,039	506	813	1,262	2,581

7. Loan impairment provisions continued

- *Personal* – Balance sheet growth during H1 2023 mainly reflected continued mortgage growth. Unsecured balances growth, primarily in credit cards, was mainly a result of strong customer demand alongside disciplined credit risk appetite. Total ECL coverage increased. The increase in coverage was reflective of increased Stage 3 ECL on unsecured portfolios, mainly due to reduced write-off activity. Stable good book coverage reflected continued stable portfolio performance, while maintaining sufficient ECL coverage given increased affordability pressures on customers due to high inflation and rapidly rising interest rates. Stage 2 balances increased during H1 2023 as a result of the forecast rise in unemployment, therefore increasing IFRS 9 probability of defaults on a forward-looking basis during H1 2023. The expected peak in unemployment rate reduced as a result of the latest MES update at 30 June 2023, dampening the levels of PD SICR deterioration, but Stage 2 balance levels were maintained through three month PD persistence rules.
- *Wholesale* – Balance sheet growth was observed in financial institutions, property and corporates. Sector appetite continues to be reviewed regularly, with particular focus on sector clusters and sub-sectors that are vulnerable to cost of living, supply chain or inflationary pressures, or deemed to represent a heightened risk. Total coverage has reduced by 0.05% to 1.10% mainly due to growth in Stage 1 exposures. Stage 1 and Stage 2 ECL decreased due to improvements in forward-looking economics and some positive portfolio performance more than offsetting increases in post model adjustments.

Flow statements

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

- Financial assets include treasury liquidity portfolios, comprising balances at central banks and debt securities, as well as loans. Both modelled and non-modelled portfolios are included.
- Stage transfers (for example, exposures moving from Stage 1 into Stage 2) are a key feature of the ECL movements, with the net re-measurement cost of transitioning to a worse stage being a primary driver of income statement charges. Similarly, there is an ECL benefit for accounts improving stage.
- Changes in risk parameters shows the reassessment of the ECL within a given stage, including any ECL overlays and residual income statement gains or losses at the point of write-off or accounting write-down.
- Other (P&L only items) includes any subsequent changes in the value of written-down assets (for example, fortuitous recoveries) along with other direct write-off items such as direct recovery costs. Other (P&L only items) affects the income statement but does not affect balance sheet ECL movements.
- Amounts written-off represent the gross asset written-down against accounts with ECL, including the net asset write-down for any debt sale activity.
- There were flows from Stage 1 into Stage 3 including transfers due to unexpected default events.
- The effect of any change in post model adjustments during the year is typically reported under changes in risk parameters, as are any effects arising from changes to the underlying models. Refer to the section on Governance and post model adjustments for further details.
- All movements are captured monthly and aggregated. Interest suspended post default is included within Stage 3 ECL with the movement in the value of suspended interest during the year reported under currency translation and other adjustments.

	Stage 1		Stage 2		Stage 3		Total	
NWB Group total	**Financial assets £m**	**ECL £m**	**Financial assets £m**	**ECL £m**	**Financial assets £m**	**ECL £m**	**Financial assets £m**	**ECL £m**
At 1 January 2023	**359,432**	**506**	**39,087**	**813**	**3,862**	**1,262**	**402,381**	**2,581**
Currency translation and other adjustments	(1,360)	2	(191)	(3)	44	48	(1,507)	47
Transfers from Stage 1 to Stage 2	(21,122)	(133)	21,122	133	—	—	—	—
Transfers from Stage 2 to Stage 1	18,796	312	(18,796)	(312)	—	—	—	—
Transfers to Stage 3	(125)	(2)	(1,385)	(109)	1,510	111	—	—
Transfers from Stage 3	151	14	237	18	(388)	(32)	—	—
Net re-measurement of ECL on stage transfer		(227)		332		94		199
Changes in risk parameters (model inputs)		(26)		(22)		102		54
Other changes in net exposure	(13,112)	86	(3,370)	(72)	(770)	(63)	(17,252)	(49)
Other (P&L only items)		—		(1)		(14)		(15)
Income statement (releases)/charges		(167)		237		119		189
Amounts written-off	—	—	—	—	(88)	(88)	(88)	(88)
Unwinding of discount		—		—		(51)		(51)
At 30 June 2023	**342,660**	**532**	**36,704**	**778**	**4,170**	**1,383**	**383,534**	**2,693**
Net carrying amount	**342,128**		**35,926**		**2,787**		**380,841**	
At 1 January 2022	388,953	231	27,337	1,105	3,147	1,167	419,437	2,503
2022 movements	(2,874)	86	(4,465)	(267)	834	43	(6,505)	(138)
At 30 June 2022	386,079	317	22,872	838	3,981	1,210	412,932	2,365
Net carrying amount	385,762		22,034		2,771		410,567	

Notes

7. Loan impairment provisions continued

Flow statements

Retail Banking - mortgages	Stage 1 Financial assets £m	Stage 1 ECL £m	Stage 2 Financial assets £m	Stage 2 ECL £m	Stage 3 Financial assets £m	Stage 3 ECL £m	Total Financial assets £m	Total ECL £m
At 1 January 2023	**153,791**	**74**	**16,557**	**55**	**1,321**	**139**	**171,669**	**268**
Currency translation and other adjustments	**(2)**	**—**	**2**	**—**	**25**	**25**	**25**	**25**
Transfers from Stage 1 to Stage 2	**(8,778)**	**(6)**	**8,778**	**6**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**6,532**	**14**	**(6,532)**	**(14)**	**—**	**—**	**—**	**—**
Transfers to Stage 3	**(14)**	**—**	**(371)**	**(2)**	**385**	**2**	**—**	**—**
Transfers from Stage 3	**18**	**—**	**114**	**3**	**(132)**	**(3)**	**—**	**—**
Net re-measurement of ECL on stage transfer		**(10)**		**14**		**2**		**6**
Changes in risk parameters (model inputs)		**17**		**(1)**		**27**		**43**
Other changes in net exposure	**7,583**	**(3)**	**(1,050)**	**(3)**	**(186)**	**(16)**	**6,347**	**(22)**
Other (P&L only items)		**(1)**		**—**		**(5)**		**(6)**
Income statement (releases)/charges		**3**		**10**		**8**		**21**
Amounts written-off	**—**	**—**	**—**	**—**	**(4)**	**(4)**	**(4)**	**(4)**
Unwinding of discount		**—**		**—**		**(16)**		**(16)**
At 30 June 2023	**159,130**	**86**	**17,498**	**58**	**1,409**	**156**	**178,037**	**300**
Net carrying amount	**159,044**		**17,440**		**1,253**		**177,737**	
At 1 January 2022	146,450	22	8,692	123	875	158	156,017	303
2022 movements	6,786	29	(1,397)	(66)	401	(23)	5,790	(60)
At 30 June 2022	153,236	51	7,295	57	1,276	135	161,807	243
Net carrying amount	153,185		7,238		1,141		161,564	

- ECL levels for mortgages increased during H1 2023, reflecting continued strong growth. While portfolio performance remained stable, increased economic uncertainty is captured through ECL post model adjustments (reflected in changes in risk parameters).
- There were net flows into Stage 2 from Stage 1 as PDs increased due to moving closer to the forecasted unemployment peak, noting the latest MES update reduction in unemployment peak will not result in exits from Stage 2 until Q3 2023 (due to the three month PD persistence rule in stage allocation).
- The increase in the cost of living post model adjustment at 30 June 2023 proportionately allocated more ECL to Stage 1 given the forward-looking nature of the cost of living and inflation threat. Refer to the Governance and post model adjustments section for more information.
- The Stage 3 inflows remained broadly stable but there was a modest increase in Stage 3 ECL overall, partly linked to recent house price index deterioration. The relatively small ECL cost for net re-measurement on stage transfer included the effect of risk targeted ECL adjustments, when previously in the good book. Refer to the Governance and post model adjustments section for further details.
- Write-off occurs once the repossessed property has been sold and there is a residual shortfall balance remaining outstanding. This would typically be within five years from default but can be longer. Given repossession activity remains subdued relative to pre-COVID-19 levels, write-offs remained at a lower level.

Notes

7. Loan impairment provisions continued

Flow statements

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Retail Banking - credit cards	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2023	2,420	47	855	91	88	57	3,363	195
Currency translation and other adjustments	—	—	—	—	3	1	3	1
Transfers from Stage 1 to Stage 2	(695)	(17)	695	17	—	—	—	—
Transfers from Stage 2 to Stage 1	263	19	(263)	(19)	—	—	—	—
Transfers to Stage 3	(8)	—	(44)	(18)	52	18	—	—
Transfers from Stage 3	1	1	3	1	(4)	(2)	—	—
Net re-measurement of ECL on stage transfer		(12)		63		13		64
Changes in risk parameters (model inputs)		5		(1)		7		11
Other changes in net exposure	579	4	(40)	(19)	(13)	(1)	526	(16)
Other (P&L only items)		—		—		—		—
Income statement (releases)/charges		(3)		43		19		59
Amounts written-off	—	—	—	—	(26)	(26)	(26)	(26)
Unwinding of discount		—		—		(2)		(2)
At 30 June 2023	2,560	47	1,206	115	100	65	3,866	227
Net carrying amount	2,513		1,091		35		3,639	
At 1 January 2022	2,096	47	751	114	69	45	2,916	206
2022 movements	89	4	46	(24)	15	7	150	(13)
At 30 June 2022	2,185	51	797	90	84	52	3,066	193
Net carrying amount	2,134		707		32		2,873	

- The overall increase in ECL was mainly due to the increase in Stage 2 ECL.
- While portfolio performance remained stable, a net flow into Stage 2 from Stage 1 is observed as PDs increase as the forecasted unemployment peak moves closer and PD modelling updates capture more economic downside.
- Credit card balances have continued to grow since the 2022 year end, in line with industry trends in the UK, reflecting strong customer demand, while sustaining robust risk appetite.
- Reflecting the strong credit performance observed during H1 2023, Stage 3 inflows remained stable and therefore Stage 3 ECL movement was modest in H1 2023.
- Charge-off (analogous to partial write-off) typically occurs after 12 missed payments.

Notes

7. Loan impairment provisions continued

Flow statements

Retail Banking - other personal unsecured	Stage 1 Financial assets £m	Stage 1 ECL £m	Stage 2 Financial assets £m	Stage 2 ECL £m	Stage 3 Financial assets £m	Stage 3 ECL £m	Total Financial assets £m	Total ECL £m
At 1 January 2023	**3,813**	**92**	**1,666**	**225**	**638**	**516**	**6,117**	**833**
Currency translation and other adjustments	**—**	**—**	**(1)**	**(2)**	**10**	**10**	**9**	**8**
Transfers from Stage 1 to Stage 2	**(1,206)**	**(50)**	**1,206**	**50**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**984**	**140**	**(984)**	**(140)**	**—**	**—**	**—**	**—**
Transfers to Stage 3	**(19)**	**(1)**	**(136)**	**(53)**	**155**	**54**	**—**	**—**
Transfers from Stage 3	**2**	**1**	**9**	**3**	**(11)**	**(4)**	**—**	**—**
Net re-measurement of ECL on stage transfer		**(100)**		**140**		**20**		**60**
Changes in risk parameters (model inputs)		**(19)**		**(8)**		**41**		**14**
Other changes in net exposure	**498**	**47**	**(222)**	**(24)**	**(42)**	**(14)**	**234**	**9**
Other (P&L only items)		**1**		**(1)**		**4**		**4**
Income statement (releases)/charges		**(71)**		**107**		**51**		**87**
Amounts written-off	**—**	**—**	**—**	**—**	**(18)**	**(18)**	**(18)**	**(18)**
Unwinding of discount		**—**		**—**		**(12)**		**(12)**
At 30 June 2023	**4,072**	**110**	**1,538**	**191**	**732**	**593**	**6,342**	**894**
Net carrying amount	**3,962**		**1,347**		**139**		**5,448**	
At 1 January 2022	3,636	43	1,574	242	510	438	5,720	723
2022 movements	229	9	(150)	(51)	87	62	166	20
At 30 June 2022	3,865	52	1,424	191	597	500	5,886	743
Net carrying amount	3,813		1,233		97		5,143	

- Total ECL increased mainly in Stage 3. While default levels were stable, they were higher than in 2022 in absolute terms. This increase was in line with post-COVID-19 portfolio growth alongside robust risk appetite and, given write-off levels are lower during 2023 so far, ECL levels have also risen.
- While portfolio performance remains stable, a net flow into Stage 2 from Stage 1 is observed as PDs increase as the forecasted unemployment peak moves closer. The lower forecast unemployment peak in the latest MES economics dampened the net effect of stage migrations on ECL, primarily through reducing PDs on existing Stage 2 cases.
- Unsecured retail balances have grown since the 2022 year end, in line with industry trends in the UK, as unsecured borrowing demand continues.
- Write-off occurs once recovery activity with the customer has been concluded or there are no further recoveries expected, but no later than six years after default.

Notes

7. Loan impairment provisions continued

Flow statements

Commercial & Institutional total	Stage 1 Financial assets £m	Stage 1 ECL £m	Stage 2 Financial assets £m	Stage 2 ECL £m	Stage 3 Financial assets £m	Stage 3 ECL £m	Total Financial assets £m	Total ECL £m
At 1 January 2023	**63,844**	**259**	**18,360**	**419**	**1,567**	**524**	**83,771**	**1,202**
Currency translation and other adjustments	**(434)**	**3**	**(183)**	**(2)**	**8**	**9**	**(609)**	**10**
Transfers from Stage 1 to Stage 2	**(9,402)**	**(56)**	**9,402**	**56**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**9,703**	**131**	**(9,703)**	**(131)**	**—**	**—**	**—**	**—**
Transfers to Stage 3	**(37)**	**(1)**	**(742)**	**(33)**	**779**	**34**	**—**	**—**
Transfers from Stage 3	**81**	**12**	**103**	**11**	**(184)**	**(23)**	**—**	**—**
Net re-measurement of ECL on stage transfer		**(101)**		**105**		**60**		**64**
Changes in risk parameters (model inputs)		**(29)**		**(11)**		**24**		**(16)**
Other changes in net exposure	**5,296**	**36**	**(1,883)**	**(20)**	**(470)**	**(33)**	**2,943**	**(17)**
Other (P&L only items)		**—**		**—**		**(13)**		**(13)**
Income statement releases		**(94)**		**74**		**38**		**18**
Amounts written-off	**—**	**—**	**—**	**—**	**(39)**	**(39)**	**(39)**	**(39)**
Unwinding of discount		**—**		**—**		**(17)**		**(17)**
At 30 June 2023	**69,051**	**254**	**15,354**	**394**	**1,661**	**539**	**86,066**	**1,187**
Net carrying amount	**68,797**		**14,960**		**1,122**		**84,879**	
At 1 January 2022	61,223	96	15,055	588	1,422	486	77,700	1,170
2022 movements	4,971	41	(2,426)	(113)	254	4	2,799	(68)
At 30 June 2022	66,194	137	12,629	475	1,676	490	80,499	1,102
Net carrying amount	66,057		12,154		1,186		79,397	

- There was a small decrease in ECL levels during H1 2023, with reductions in modelled ECL from improving economic variables and risk metrics partially offset by increases in post model adjustments to capture increased economic uncertainty and Stage 3 charges.
- Stage 2 exposure and ECL reduced, reflecting improving economic variables and risk metrics which lowered PDs and led to significant transfers of exposure and ECL from Stage 2 into Stage 1. The ECL reduction was partially offset by charges, the majority of which were from increases in post model adjustments, with the PD downgrade adjustment resulting in transfers from Stage 1 into Stage 2 and increased ECL on stage transfer, from moving from a 12 month ECL to a lifetime ECL.
- Stage 3 inflows remained stable. There was a modest increase in Stage 3 ECL overall with increases from transfers and charges largely offset by write-offs.

Notes

7. Loan impairment provisions continued

Flow statements

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Commercial & Institutional - corporate	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2023	40,369	175	14,662	344	1,093	385	56,124	904
Currency translation and other adjustments	(361)	4	(153)	(3)	9	8	(505)	9
Inter-Group transfers	1	—	(11)	—	(3)	—	(13)	—
Transfers from Stage 1 to Stage 2	(7,238)	(44)	7,238	44	—	—	—	—
Transfers from Stage 2 to Stage 1	6,998	102	(6,998)	(102)	—	—	—	—
Transfers to Stage 3	(31)	(1)	(570)	(26)	601	27	—	—
Transfers from Stage 3	58	10	80	8	(138)	(18)	—	—
Net re-measurement of ECL on stage transfer		(80)		78		47		45
Changes in risk parameters (model inputs)		(16)		(16)		19		(13)
Other changes in net exposure	4,897	28	(1,798)	(13)	(352)	(30)	2,747	(15)
Other (P&L only items)		(1)		—		(12)		(13)
Income statement (releases)/charges		(69)		49		24		4
Amounts written-off	—	—	—	—	(20)	(20)	(20)	(20)
Unwinding of discount		—		—		(14)		(14)
At 30 June 2023	44,693	178	12,450	314	1,190	404	58,333	896
Net carrying amount	44,515		12,136		786		57,437	

- There was a modest decrease in ECL levels during H1 2023, with reductions in modelled ECL from improving economic variables and risk metrics offset by increases in post model adjustments to capture increased economic uncertainty and Stage 3 charges.
- Stage 2 exposure and ECL reduced, reflecting improving economic variables and risk metrics which lowered PDs, with the net effect of stage transfers leading to a reduction in ECL. The ECL reduction was partially offset by charges, the majority of which, were from increases in post model adjustments.
- Stage 3 inflows remained stable with increases from government scheme lending. There was a modest increase in Stage 3 ECL overall with increases from transfers and charges partially offset by write-offs.

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Commercial & Institutional - property	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2023	16,806	73	2,871	66	378	126	20,055	265
Currency translation and other adjustments	(7)	—	(4)	(1)	1	2	(10)	1
Inter-Group transfers	1	—	6	—	2	—	9	—
Transfers from Stage 1 to Stage 2	(1,739)	(11)	1,739	11	—	—	—	—
Transfers from Stage 2 to Stage 1	1,596	21	(1,596)	(21)	—	—	—	—
Transfers to Stage 3	(7)	—	(169)	(7)	176	7	—	—
Transfers from Stage 3	21	2	22	3	(43)	(5)	—	—
Net re-measurement of ECL on stage transfer		(15)		24		12		21
Changes in risk parameters (model inputs)		(11)		4		3		(4)
Other changes in net exposure	505	7	(344)	(5)	(78)	(3)	83	(1)
Other (P&L only items)		1		(1)		—		—
Income statement (releases)/charges		(18)		22		12		16
Amounts written-off	—	—	—	—	(14)	(14)	(14)	(14)
Unwinding of discount		—		—		(3)		(3)
At 30 June 2023	17,176	66	2,525	74	422	125	20,123	265
Net carrying amount	17,110		2,451		297		19,858	

- ECL levels stayed constant during H1 2023, with reductions in modelled ECL from improving economic variables and risk metrics offset by increases in post model adjustments to capture increased economic uncertainty.
- Stage 2 exposure reduced reflecting improving economic variables and risk metrics which lowered PDs, with the net effect of stage transfers leading to a reduction in ECL.
- Stage 2 ECL increased due to economic uncertainty post model adjustments which more than offset reductions from stage transfers.
- Stage 3 inflows increased due to an uptick in defaults but this did not lead to a change in ECL with increases from transfers and charges offset by write-offs.

Notes

7. Loan impairment provisions continued

Flow statements

	Stage 1		Stage 2		Stage 3		Total	
Commercial & Institutional - other	**Financial assets £m**	**ECL £m**	**Financial assets £m**	**ECL £m**	**Financial assets £m**	**ECL £m**	**Financial assets £m**	**ECL £m**
At 1 January 2023	6,669	11	827	9	96	13	7,592	33
Currency translation and other adjustments	(65)	—	(27)	—	(2)	—	(94)	—
Inter-Group transfers	(1)	—	5	—	—	—	4	—
Transfers from Stage 1 to Stage 2	(424)	(1)	424	1	—	—	—	—
Transfers from Stage 2 to Stage 1	1,108	7	(1,108)	(7)	—	—	—	—
Transfers to Stage 3	—	—	(2)	—	2	—	—	—
Transfers from Stage 3	2	—	1	—	(3)	—	—	—
Net re-measurement of ECL on stage transfer		(6)		4		—		(2)
Changes in risk parameters (model inputs)		(2)		—		2		—
Other changes in net exposure	(107)	1	259	(1)	(40)	(1)	112	(1)
Other (P&L only items)		—		—		1		1
Income statement (releases)/charges		(7)		3		2		(2)
Amounts written-off	—	—	—	—	(4)	(4)	(4)	(4)
Unwinding of discount		—		—		—		—
At 30 June 2023	7,182	10	379	6	49	10	7,610	26
Net carrying amount	7,172		373		39		7,584	

- There was a modest decrease in ECL levels during H1 2023, with reductions in modelled ECL from improving economic variables and risk metrics partially offset by increases in post model adjustments to capture increased economic uncertainty.
- Stage 2 exposure and ECL reduced, reflecting improving economic variables and risk metrics which lowered PDs and led to significant transfers of exposure and ECL from Stage 2 into Stage 1.

Notes

7. Loan impairment provisions continued

Mortgage LTV distribution by stage

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

	Mortgages						ECL provisions				ECL provisions coverage (2)			
30 June 2023	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Not within IFRS 9 ECL scope £m**	**Total £m**	**Of which: gross new lending £m**	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total (1) £m**	**Stage 1 %**	**Stage 2 %**	**Stage 3 %**	**Total %**
≤50%	**59,186**	**6,234**	**733**	**44**	**66,197**	**2,722**	**24**	**15**	**78**	**117**	**0.0**	**0.2**	**10.6**	**0.2**
>50% and ≤70%	**64,066**	**7,149**	**569**	**5**	**71,789**	**4,773**	**33**	**25**	**55**	**113**	**0.1**	**0.4**	**9.7**	**0.2**
>70% and ≤80%	**22,059**	**2,091**	**89**	**—**	**24,239**	**3,978**	**11**	**8**	**11**	**30**	**0.1**	**0.4**	**12.4**	**0.1**
>80% and ≤90%	**11,207**	**1,392**	**27**	**—**	**12,626**	**3,148**	**9**	**6**	**4**	**19**	**0.1**	**0.4**	**14.8**	**0.2**
>90% and ≤100%	**4,331**	**481**	**9**	**—**	**4,821**	**2,427**	**4**	**3**	**2**	**9**	**0.1**	**0.6**	**22.2**	**0.2**
>100%	**44**	**7**	**11**	**—**	**62**	**7**	**2**	**—**	**5**	**7**	**4.6**	**—**	**45.5**	**11.3**
Total with LTVs	**160,893**	**17,354**	**1,438**	**49**	**179,734**	**17,055**	**83**	**57**	**155**	**295**	**0.1**	**0.3**	**10.8**	**0.2**
Other	**103**	**1**	**1**	**—**	**105**	**—**	**2**	**—**	**1**	**3**	**1.9**	**—**	**100.0**	**2.9**
Total	**160,996**	**17,355**	**1,439**	**49**	**179,839**	**17,055**	**85**	**57**	**156**	**298**	**0.1**	**0.3**	**10.8**	**0.2**
31 December 2022														
≤50%	63,446	6,809	742	50	71,047	7,187	23	17	77	117	—	0.3	10.4	0.2
>50% and ≤70%	65,419	7,118	495	5	73,037	13,790	31	27	47	105	0.1	0.4	9.5	0.1
>70% and ≤80%	17,227	1,540	52	1	18,820	10,978	7	6	7	20	—	0.4	13.5	0.1
>80% and ≤90%	7,714	889	14	1	8,618	6,950	6	4	4	14	0.1	0.5	28.6	0.2
>90% and ≤100%	1,363	17	4	—	1,384	1,341	2	—	1	3	0.2	—	25.0	0.2
>100%	34	7	9	—	50	2	2	—	4	6	5.9	—	44.4	12.0
Total with LTVs	155,203	16,380	1,316	57	172,956	40,248	71	54	140	265	0.1	0.3	10.6	0.2
Other	40	1	1	—	42	—	3	—	1	4	7.5	—	100.0	9.5
Total	155,243	16,381	1,317	57	172,998	40,248	74	54	141	269	0.1	0.3	10.7	0.2

(1) Excludes a non-material amount of provisions held on relatively small legacy portfolios.
(2) ECL provisions coverage is ECL provisions divided by mortgages.

- Overall LTV for the portfolio increased during H1 2023, reflecting the easing of UK house prices, which was reflected in the increased exposure in the higher LTV bands. ECL coverage levels were maintained across the LTV bands.

Notes
8. Provisions for liabilities and charges

	Redress and other litigation £m	Property £m	Financial commitments and guarantees £m	Other (1) £m	Total £m
At 1 January 2023	292	105	59	94	550
Expected credit losses impairment charge	—	—	1	—	1
Currency translation and other movements	(3)	—	—	(4)	(7)
Charge to income statement	26	19	—	31	76
Release to income statement	(1)	(16)	—	(11)	(28)
Provisions utilised	(68)	(7)	—	(25)	(100)
At 30 June 2023	246	101	60	85	492

(1) Other materially comprises provisions relating to restructuring costs.

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

9. Dividends
The Board of National Westminster Bank Plc has declared an interim dividend for H1 2023 of £838 million to be paid to NWH Ltd in H2 2023 (H1 2022- £993 million).

10. Contingent liabilities and commitments
The amounts shown in the table below are intended only to provide an indication of the volume of business outstanding at 30 June 2023. Although NWB Group is exposed to credit risk in the event of non-performance of the obligations undertaken by customers, the amounts shown do not, and are not intended to, provide any indication of NWB Group's expectation of future losses.

	30 June 2023 £m	31 December 2022 £m
Contingent liabilities and commitments		
Guarantees	1,324	1,728
Other contingent liabilities	1,034	1,197
Standby facilities, credit lines and other commitments	81,997	87,221
Total	84,355	90,146

Commitments and contingent obligations are subject to NWB Group's normal credit approval processes.

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

Notes

11. Litigation and regulatory matters

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

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

In many of these Matters, it is not possible to determine whether any loss is probable, or to estimate reliably the amount of any loss, either as a direct consequence of the relevant proceedings and regulatory matters or as a result of adverse impacts or restrictions on NWB Group's reputation, businesses and operations. Numerous legal and factual issues may need to be resolved, including through potentially lengthy discovery and document production exercises and determination of important factual matters, and by addressing novel or unsettled legal questions relevant to the proceedings in question, before a liability can reasonably be estimated for any claim. NWB Group cannot predict if, how, or when such claims will be resolved or what the eventual settlement, damages, fine, penalty or other relief, if any, may be, particularly for claims that are at an early stage in their development or where claimants seek substantial or indeterminate damages.

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

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

The future outflow of resources in respect of any Matter may ultimately prove to be substantially greater than or less than the aggregate provision that NWB Group has recognised. Where (and as far as) liability cannot be reasonably estimated, no provision has been recognised. NWB Group expects that in future periods, additional provisions, settlement amounts and customer redress payments will be necessary, in amounts that are expected to be substantial in some instances. Please refer to Note 8 for information on material provisions.

Matters which are, or could be material, having regard to NWB Group, considered as a whole, in which NWB Group is currently involved are set out below. We have provided information on the procedural history of certain Matters, where we believe appropriate, to aid the understanding of the Matter.

For a discussion of certain risks associated with NWB Group's litigation and regulatory matters, see the Risk Factor relating to legal, regulatory and governmental actions and investigations set out on page 191 of NWB Plc's 2022 Annual Report and Accounts.

Litigation

London Interbank Offered Rate (LIBOR) and other rates litigation

In August 2020, a complaint was filed in the United States District Court for the Northern District of California by several United States retail borrowers against the USD ICE LIBOR panel banks and their affiliates (including NatWest Group plc, NatWest Markets Plc, NatWest Markets Securities Inc. and NWB Plc), alleging (i) that the very process of setting USD ICE LIBOR amounts to illegal price-fixing; and (ii) that banks in the United States have illegally agreed to use LIBOR as a component of price in variable retail loans. In September 2022, the district court dismissed the complaint, subject to re-pleading by the plaintiffs. The plaintiffs filed an amended complaint in October 2022, which the defendants are again seeking to have dismissed.

Notes

11. Litigation and regulatory matters continued

Offshoring VAT assessments

HMRC issued protective tax assessments in 2018 against NatWest Group plc totalling £143 million relating to unpaid VAT in respect of the UK branches of two NatWest Group companies registered in India. NatWest Group formally requested reconsideration by HMRC of their assessments, and this process was completed in November 2020. HMRC upheld their original decision and, as a result, NatWest Group plc lodged an appeal with the Tax Tribunal and an application for judicial review with the High Court of Justice of England and Wales, both in December 2020. In order to lodge the appeal with the Tax Tribunal, NatWest Group plc was required to pay £143 million to HMRC, and payment was made in December 2020. The appeal and the application for judicial review have both been stayed pending resolution of a separate case involving another bank.

Regulatory matters (including investigations and customer redress programmes)

NWB Group's financial condition can be affected by the actions of various governmental and regulatory authorities in the UK, the US, the EU and elsewhere. NWB Group and/or NatWest Group have engaged, and will continue to engage, in discussions with relevant governmental and regulatory authorities, including in the UK, the US, the EU and elsewhere, on an ongoing and regular basis, and in response to informal and formal inquiries or investigations, regarding operational, systems and control evaluations and issues including those related to compliance with applicable laws and regulations, including consumer protection, investment advice, business conduct, competition/anti-trust, VAT recovery, anti-bribery, anti-money laundering and sanctions regimes. NWB Group expects government and regulatory intervention in financial services to be high for the foreseeable future, including increased scrutiny from competition and other regulators in the retail and SME business sectors.

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

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

Investment advice review

In October 2019, the FCA notified NatWest Group of its intention to appoint a Skilled Person under section 166 of the Financial Services and Markets Act 2000 to conduct a review of whether NatWest Group's past business review of investment advice provided during 2010 to 2015 was subject to appropriate governance and accountability and led to appropriate customer outcomes. The Skilled Person's review has concluded and, after discussion with the FCA, NatWest Group has now commenced additional review/remediation work.

Notes

12. Related party transactions

UK Government

The UK Government through HM Treasury is the ultimate controlling party of NatWest Group plc. The UK Government's shareholding is managed by UK Government Investments Limited, a company wholly owned by the UK Government. As a result the UK Government and UK Government controlled bodies are related parties of the Group.

At 30 June 2023 HM Treasury's holding in the NatWest Group's ordinary shares was 38.53%.

NWB Group enters into transactions with many of these bodies. Transactions include the payment of: taxes – principally UK corporation tax and value added tax; national insurance contributions; local authority rates; regulatory fees and levies; together with banking transactions such as loans and deposits undertaken in the normal course of banker customer relationships.

Bank of England facilities

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

Other related parties

(a) In their roles as providers of finance, NWB Group companies provide development and other types of capital support to businesses. These investments are made in the normal course of business.

(b) To further strategic partnerships, NWB Group may seek to invest in third parties or allow third parties to hold a minority interest in a subsidiary of NWB Group. We disclose as related parties where stakes of 10 per cent or more are held. Ongoing business transactions with these entities are on normal commercial terms.

(c) NWB Group recharges the NatWest Group Pension Fund with the cost of administration services incurred by it. The amounts involved are not material to NWB Group.

(d) In accordance with IAS 24, transactions or balances between NWB Group entities that have been eliminated on consolidation are not reported.

Full details of NWB Group's related party transactions for the year ended 31 December 2022 are included in NatWest Bank Plc's 2022 Annual Report and Accounts.

13. Post balance sheet events

Other than as disclosed in this document there have been no significant events between 30 June 2023 and the date of approval of this announcement which would require a change to, or additional disclosure in, the announcement.

14. Date of approval

This announcement was approved by the Board of Directors on 27 July 2023.

Independent review report to National Westminster Bank Plc

Conclusion

We have been engaged by National Westminster Bank Plc (the Group) to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2023 which comprises of the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement, and related Notes 1 to 14 (together "the condensed consolidated financial statements"). We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2023 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for conclusion

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

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

Conclusions relating to Going Concern

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

This conclusion is based on the review procedures performed in accordance with this ISRE, however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the directors

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

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

Auditor's responsibilities for the review of the financial information

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

Use of our report

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

Ernst & Young LLP
London, United Kingdom
27 July 2023

NatWest Bank plc Summary Risk Factors

Summary of Principal Risks and Uncertainties

Set out below is a summary of the principal risks and uncertainties for the remaining six months of the financial year which could adversely affect NWB Group. This summary should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties; a fuller description of these and other risk factors is included on pages 172 to 192 of the NatWest Bank Plc 2022 Annual Report and Accounts. Any of the risks identified may have a material adverse effect on NatWest Group's business, operations, financial condition or prospects.

Economic and political risk

- NWB Group, its customers and its counterparties face continued economic and political risks and uncertainties in the UK and global markets, including as a result of high inflation and rising interest rates, supply chain disruption and the Russian invasion of Ukraine.
- Changes in interest rates have significantly affected, and will continue to affect, NWB Group's business and results.
- Fluctuations in currency exchange rates may adversely affect NWB Group's results and financial condition.
- Continuing uncertainty regarding the effects and extent of the UK's post Brexit divergence from EU laws and regulation, and NWB Group's post Brexit EU operating model may adversely affect NWB Group and its operating environment.
- HM Treasury (or UKGI on its behalf) could exercise a significant degree of influence over NatWest Group and NWB Group is controlled by NatWest Group.

Strategic risk

- NatWest Group (NWB Plc's parent company) continues to implement its purpose-led strategy, which carries significant execution and operational risks and may not achieve its stated aims and targeted outcomes.
- Future acquisitions or divestments by NatWest Group (and/or NWB Group) may not be successful, and consolidation or fragmentation of the financial services industry may adversely affect NatWest Group.
- The transfer of NatWest Group's Western European corporate portfolio involves certain risks.

Financial resilience risk

- NWB Group may not meet the targets it communicates or generate sustainable returns.
- NWB Group has significant exposure to counterparty and borrower risk.
- NWB Group operates in markets that are highly competitive, with increasing competitive pressures and technology disruption.
- NWB Group may not meet the prudential regulatory requirements for regulatory capital and MREL, or manage its capital effectively, which could trigger the execution of certain management actions or recovery options.
- NWB Group may not be able to adequately access sources of liquidity and funding.
- NWB Group is reliant on NatWest Group for capital and funding support, and is substantially reliant on NatWest Group plc's ability to issue sufficient amounts of capital and external MREL securities and downstream the proceeds to NWB Group. The inability to do so may adversely affect NWB Group.
- Any reduction in the credit rating and/or outlooks assigned to NatWest Group plc, any of its subsidiaries (including NWB Plc or other NWB Group subsidiaries) or any of their respective debt securities could adversely affect the availability of funding for NWB Group, reduce its liquidity position and increase the cost of funding.
- NWB Group may be adversely affected if NatWest Group fails to meet the requirements of regulatory stress tests.
- NWB Group could incur losses or be required to maintain higher levels of capital as a result of limitations or failure of various models.
- NWB Group's financial statements are sensitive to underlying accounting policies, judgments, estimates and assumptions.
- Changes in accounting standards may materially impact NWB Group's financial results.
- NatWest Group (including NWB Group) may become subject to the application of UK statutory stabilisation or resolution powers which may result in, for example, the write-down or conversion of NWB Group's eligible liabilities.
- NatWest Group is subject to Bank of England and PRA oversight in respect of resolution, and NWB Group could be adversely affected should the Bank of England in the future deem NatWest Group's preparations to be inadequate.

Climate and sustainability-related risks

- NWB Group and its customers, suppliers and counterparties face significant climate and sustainability-related risks, which may adversely affect NWB Group.
- NatWest Group's climate change related strategy, ambitions, targets and transition plan entail significant execution and reputational risk and are unlikely to be achieved without significant and timely government policy, technology and customer behavioural changes.
- There are significant limitations related to accessing reliable, verifiable and comparable climate and other sustainability-related data, including as a result of lack of standardisation, consistency and completeness which, alongside other factors, contribute to substantial uncertainties in accurately modelling and reporting on climate and sustainability information, as well as making appropriate important internal decisions.
- A failure to implement effective climate change resilient governance, procedures, systems and controls in compliance with legal and regulatory expectations to manage climate and sustainability-related risks and opportunities could adversely affect NWB Group's ability to manage those risks.
- Increasing levels of climate, environmental, human rights and other sustainability-related laws, regulation and oversight which are constantly evolving may adversely affect NWB Group.
- NWB Group may be subject to potential climate, environmental, human rights and other sustainability-related litigation, enforcement proceedings, investigations and conduct risk.
- A reduction in the ESG ratings of NatWest Group (including NWB Group) could have a negative impact on NatWest Group's (including NWB Group's) reputation and on investors' risk appetite and customers' willingness to deal with NatWest Group (including NWB Group).

NatWest Bank plc Summary Risk Factors
Summary of Principal Risks and Uncertainties continued
Operational and IT resilience risk
- Operational risks (including reliance on third party suppliers and outsourcing of certain activities) are inherent in NWB Group's businesses. NWB Group increasingly provides certain shared critical services, including property and financial accounting, regulatory reporting and certain administrative, treasury and legal services to other entities within NatWest Group (in particular, NWM Plc) and receives income in respect of these services. As a result, NWB Group may be exposed to a loss of income if these services are not required to the same extent, or are no longer required at all.
- NWB Group is subject to increasingly sophisticated and frequent cyberattacks.
- NWB Group operations and strategy are highly dependent on the accuracy and effective use of data.
- NWB Group's operations are highly dependent on its complex IT systems and any IT failure could adversely affect NWB Group.
- NWB Group relies on attracting, retaining and developing diverse senior management and skilled personnel, and is required to maintain good employee relations.
- A failure in NWB Group's risk management framework could adversely affect NWB Group, including its ability to achieve its strategic objectives.
- NWB Group's operations are subject to inherent reputational risk.

Legal, regulatory and conduct risk
- NWB Group's businesses are subject to substantial regulation and oversight, which are constantly evolving and may adversely affect NWB Group.
- NWB Group is exposed to the risks of various litigation matters, regulatory and governmental actions and investigations as well as remedial undertakings, including conduct-related reviews, anti-money laundering and redress projects, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on NWB Group.
- NWB Group may not effectively manage the transition of LIBOR and other IBOR rates to replacement risk-free rates.
- Changes in tax legislation or failure to generate future taxable profits may impact the recoverability of certain deferred tax assets recognised by NWB Group.

Statement of directors' responsibilities

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

- the condensed financial statements have been prepared in accordance with UK adopted IAS 34 'Interim Financial Reporting';
- the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the Board

Howard Davies Chairman	Katie Murray Chief Financial Officer

27 July 2023

Board of directors

Chairman	Executive directors	Non-executive directors
Howard Davies	John-Paul Thwaite	Francesca Barnes
	Katie Murray	Graham Beale
		Ian Cormack
		Roisin Donnelly
		Patrick Flynn
		Morten Friis
		Yasmin Jetha
		Stuart Lewis
		Mark Seligman
		Lena Wilson

Presentation of information

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

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

Statutory accounts

Financial information contained in this document does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006 ("the Act"). The statutory accounts for the year ended 31 December 2022 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.

Contact

Alexander Holcroft	Investor Relations	+44 (0) 20 7672 1758

Forward-looking statements

This document may include 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 NWB Group's future economic results, business plans and strategies. In particular, this document may include forward-looking statements relating to NWB Group in respect of, but not limited to: its economic and political risks, its regulatory capital position and related requirements, its financial position, profitability and financial performance (including financial, capital, cost savings and operational targets), the implementation of NatWest Group's purpose-led strategy, its environmental, social and governance 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 impairment losses and credit exposures under certain specified scenarios, substantial regulation and oversight, ongoing legal, regulatory and governmental actions and investigations, the transition of LIBOR and IBOR rates to replacement risk free rates and NWB Group's exposure to, operational risk, conduct risk, cyber, data and IT risk, financial crime risk, key person risk and credit rating risk. Forward-looking statements are subject to a number of risks and uncertainties that might cause actual results and performance to differ materially from any expected future results or performance expressed or implied by the forward-looking statements. Factors that could cause or contribute to differences in current expectations include, but are not limited to, future growth initiatives (including acquisitions, joint ventures and strategic partnerships), the outcome of legal, regulatory and governmental actions and investigations, the level and extent of future impairments and write-downs, legislative, political, fiscal and regulatory developments, accounting standards, competitive conditions, technological developments, interest and exchange rate fluctuations, and general economic and political conditions and the impact of climate related risks and the transitioning to a net zero economy. These and other factors, risks and uncertainties that may impact any forward-looking statement or the NWB Group's actual results are discussed in the NWB Plc's 2022 Annual Report and Accounts (ARA), and NWB Plc's Interim Results for H1 2023. The forward-looking statements contained in this document speak only as of the date of this document and NWB Plc does not assume or undertake any obligation or responsibility to update any of the forward-looking statements contained in this document, whether as a result of new information, future events or otherwise, except to the extent legally required.

Legal Entity Identifier: 213800IBT39XQ9C4CP71