



NatWest Markets Group Interim Results 2023

NatWest Markets Group (NWM Group)

Results for the half year ended 30 June 2023

Overview of the half year

In H1 2023, we have continued to focus on our strengths to support our customers' evolving needs with financing and risk solutions. Our improved connectivity as part of the NatWest Group Commercial & Institutional segment is enabling us to unlock further opportunities for growth and to build even deeper relationships with NatWest Group customers.

Our business performance has been strong over the half year and we have maintained our robust capital and liquidity position. We continue to monitor the evolving economic outlook including the continued rise in cost of living and are mindful of the impact that rising inflation and higher interest rates are having on our customers.

Financial review

NWM Group reported a loss of £148 million for H1 2023 compared with a loss of £86 million in H1 2022. Total income of £430 million was down by £8 million compared with H1 2022, as a stronger performance in Fixed Income was more than offset by lower Currencies income and own credit adjustments. Operating expenses decreased by £6 million to £534 million, driven by a decrease in litigation and conduct costs partially offset by an increase in other operating expenses.

Financial performance

- Total income was £430 million, a decrease of £8 million compared with £438 million in H1 2022. Fixed Income performance was stronger in the current period compared with H1 2022 which was impacted by challenging market conditions. A weaker performance in the Currencies business largely reflected lower levels of FX volatility. Own credit adjustments of £9 million were down by £43 million compared with H1 2022, a period in which credit spreads widened due to increased market volatility.
- Operating expenses of £534 million in H1 2023 were £6 million lower than £540 million in H1 2022. Litigation and conduct costs of £8 million credit reflected ongoing progress in closing legacy matters and were £28 million lower than £20 million in H1 2022. Other operating expenses were up by £22 million to £542 million in H1 2023, largely reflecting lower technology investment costs recognised in the comparative period.
- NWM Group's total assets and liabilities increased by £0.7 billion and £1.1 billion to £190.5 billion and £184.3 billion respectively at 30 June 2023, compared with 31 December 2022. Increases in funded assets including settlement balances and cash and balances at central banks were offset by lower derivative fair values, largely driven by market volatility across major currencies and increases in interest rates.

Capital and leverage

- Total NWM Plc RWAs were £20.2 billion at 30 June 2023, compared with £21.4 billion at 31 December 2022. The decrease in the period was primarily due to lower market risk, mainly driven by reduction in risk exposures and Value-at-Risk (VaR) multiplier, partially offset by an increase in counterparty credit risk, reflecting the call of a capital optimisation trade in Q2 2023.
- NWM Plc's Common Equity Tier 1 (CET1) ratio was 17.6% at 30 June 2023, compared with 17.2% at 31 December 2022. The increase in the period was largely driven by the decrease in RWAs, partially offset by reserve movements.
- Total MREL for NWM Plc at 30 June 2023 was £7.8 billion, or 38.8% of RWAs, down from £8.7 billion or 40.4% of RWAs at 31 December 2022. The decrease in total MREL was largely due to the redemption of a \$0.6 billion internal Tier 2 instrument, and other reserve movements.
- NWM Plc's leverage ratio at 30 June 2023 was 5.4%, unchanged from 31 December 2022.

Liquidity and funding

- NWM Plc's liquidity portfolio at 30 June 2023 was £19.5 billion with an LCR of 249% (31 December 2022 - £18.6 billion with LCR 253%).
- NWM Plc issued public benchmark transactions amounting to £2.1 billion in the six months ended 30 June 2023 versus guidance of £3 billion to £5 billion for FY23. Transactions comprised three issuances under our EMTN programme being €1.5 billion, CHF0.25 billion and £0.5 billion of notes respectively. NWM Plc also raised funding in other formats throughout the period including, but not limited to, structured note issuance.

ESG highlights

Climate and sustainable funding and financing have continued to perform well, and as at the end of H1 2023 we had delivered £23.9 billion towards the NatWest Group climate and sustainable funding and financing target⁽¹⁾ of £100 billion between 1 July 2021 and the end of 2025.

(1) This comprises funding and financing for climate and sustainable finance to support transition towards a net-zero and climate-resilient economy. NatWest Group uses its climate and sustainable funding and financing inclusion criteria (CSFFI criteria) to determine the assets, activities and companies that are eligible to be counted towards its climate and sustainable funding and financing targets.

Outlook⁽¹⁾

We retain the Outlook guidance provided in the NatWest Markets Plc 2022 Annual Report and Accounts.

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

Financial review

The table below presents an analysis of key lines of NWM Group's income statement for the half year ended 30 June 2023. Commentary refers to the tables below as well as the consolidated income statement shown on page 24.

	Half year ended	
	30 June 2023	30 June 2022
	£m	£m
Income statement (1)		
Net interest income	78	29
Non-interest income	352	409
Total income	430	438
Litigation and conduct costs	8	(20)
Other operating expenses	(542)	(520)
Operating expenses	(534)	(540)
Operating loss before impairment releases/losses	(104)	(102)
Impairment releases/(losses)	5	(5)
Operating loss before tax	(99)	(107)
Tax (charge)/credit	(49)	21
Loss for the period	(148)	(86)
Income (2)		
Fixed Income	105	23
Currencies	227	280
Capital Markets	218	217
Capital Management Unit & other (3)	(29)	(47)
Income including shared revenue before OCA	521	473
Revenue shared with or paid to fellow NatWest Group subsidiaries	(100)	(87)
Income excluding OCA	421	386
Own credit adjustments (OCA)	9	52
Total income	430	438

(1) A presentational change was made in Q1 2023 whereby NWM Group no longer separately reports the performance of the NatWest Markets operating segment and Central items & other.

(2) Product performance includes gross income earned on a NatWest Group-wide basis, including amounts contributed to other NatWest Group subsidiaries. Income including shared revenue before OCA includes revenue share from other NatWest Group subsidiaries but before revenue share is paid to or contributed to those subsidiaries.

(3) Capital Management Unit was set up in Q3 2020 to manage capital usage and optimisation across all parts of NatWest Markets, with the income materially relating to legacy positions. Other mainly related to asset disposal/strategic risk reduction costs that were separately disclosed prior to Q1 2023.

- **Net interest income** was £78 million in H1 2023 compared with £29 million in H1 2022. Net interest income largely represents interest income from lending activity and capital hedges, offset by interest expense from the funding costs of the business. The movement compared with H1 2022 largely reflects growth in lending activity.
- **Non-interest income** of £352 million in H1 2023 decreased by £57 million compared with £409 million in H1 2022, driven by a weaker performance in Currencies as FX volatility levels reduced in the current period, in addition to a reduction of £43 million in own credit adjustments compared with H1 2022, a period in which credit spreads widened due to increased market volatility. This was offset by a stronger Fixed Income performance in comparison to H1 2022, a period which was impacted by challenging market conditions.
- **Operating expenses** were £534 million in H1 2023, £6 million lower than £540 million in H1 2022. Litigation and conduct costs of £8 million credit were down by £28 million from £20 million in H1 2022 reflecting ongoing progress in closing legacy matters. Other operating expenses increased to £542 million in H1 2023 from £520 million in H1 2022, largely reflecting lower technology investment costs recognised in the comparative period.
- **Tax charge** of £49 million on the loss before tax of £99 million is higher than the expected UK corporation tax rate of 23.5%, primarily due to adjustments in respect of prior periods.

Financial review

The table below presents an analysis of key lines of NWM Group's income statement for the quarter ended 30 June 2023.

	Quarter ended		
	30 June 2023	31 March 2023	30 June 2022
	£m	£m	£m
Income statement (1)			
Net interest income	43	35	15
Non-interest income	122	230	204
Total income	165	265	219
Litigation and conduct costs	16	(8)	(12)
Other operating expenses	(265)	(277)	(237)
Operating expenses	(249)	(285)	(249)
Operating loss before impairment releases/losses	(84)	(20)	(30)
Impairment releases/(losses)	3	2	(4)
Operating loss before tax	(81)	(18)	(34)
Tax (charge)/credit	(57)	8	(12)
Loss for the period	(138)	(10)	(46)
Income (2)			
Fixed Income	35	70	38
Currencies	109	118	122
Capital Markets	107	111	96
Capital Management Unit & other (3)	(37)	8	(23)
Income including shared revenue before OCA	214	307	233
Revenue shared with or paid to fellow NatWest Group subsidiaries	(52)	(48)	(48)
Income excluding OCA	162	259	185
Own credit adjustments (OCA)	3	6	34
Total income	165	265	219

(1) A presentational change was made in Q1 2023 whereby NWM Group no longer separately reports the performance of the NatWest Markets operating segment and Central items & other.

(2) Product performance includes gross income earned on a NatWest Group-wide basis, including amounts contributed to other NatWest Group subsidiaries. Income including shared revenue before OCA includes revenue share from other NatWest Group subsidiaries but before revenue share is paid to or contributed to those subsidiaries.

(3) Capital Management Unit was set up in Q3 2020 to manage capital usage and optimisation across all parts of NatWest Markets, with the income materially relating to legacy positions. Other mainly related to asset disposal/strategic risk reduction costs that were separately disclosed prior to Q1 2023.

- **Net interest income** was £43 million in Q2 2023, compared with £35 million in Q1 2023 and £15 million in Q2 2022. Net interest income largely represents interest income from lending activity and capital hedges, offset by interest expense from the funding costs of the business. The movement compared with Q2 2022 largely reflects growth in lending activity.
- **Non-interest income** of £122 million in Q2 2023 decreased by £108 million compared with £230 million Q1 2023 and by £82 million compared with £204 million in Q2 2022. The decrease in Fixed Income compared with the previous quarter was mainly driven by challenging market conditions in the current period. The decrease in Capital Management Unit & other income levels in the current quarter largely reflects fair value movements with regard to legacy and funding positions.
- **Operating expenses** were £249 million in Q2 2023, compared with £285 million in Q1 2023 and £249 million in Q2 2022. Litigation and conduct costs of £16 million credit reflects the ongoing progress in closing legacy matters and were £24 million lower than £8 million in Q1 2023 and £28 million lower than £12 million in Q2 2022. Other operating expenses of £265 million in Q2 2023 were £12 million lower compared with £277 million in Q1 2023 but £28 million higher than £237 million in Q2 2022, largely reflecting lower technology investment costs recognised in the comparative period.
- **Tax charge** of £57 million on the loss before tax of £81 million is higher than the expected UK corporation tax rate of 23.5%, primarily due to adjustments in respect of prior periods.

Financial review

Balance sheet profile as at 30 June 2023

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

Assets			Liabilities		
	30 June 2023	31 December 2022	30 June 2023	31 December 2022	
	£bn	£bn	£bn	£bn	
Cash and balances at central banks	21.3	17.0			
Securities	16.9	9.9	11.2	9.5	Short positions
Reverse repos (1)	21.3	21.5	27.8	23.7	Repos (2)
Derivative cash collateral given (3)	10.0	12.7	15.2	17.7	Derivative cash collateral received (4)
Other trading assets	0.6	1.2	1.9	1.9	Other trading liabilities
Total trading assets	48.8	45.3	56.1	52.8	Total trading liabilities
Loans - amortised cost	11.1	11.3	11.7	6.7	Deposits - amortised cost
Settlement balances	11.6	2.6	10.0	2.0	Settlement balances
Amounts due from holding company and fellow subsidiaries	1.3	0.7	6.4	6.2	Amounts due to holding company and fellow subsidiaries
Other financial assets	12.9	11.9	22.5	21.1	Other financial liabilities
Other assets	0.7	0.8	0.5	0.8	Other liabilities
Funded assets	107.7	89.6	107.2	89.6	Liabilities excluding derivatives
Derivative assets	82.8	100.2	77.1	93.6	Derivative liabilities
Total assets	190.5	189.8	184.3	183.2	Total liabilities
					of which:
			24.3	23.5	wholesale funding (5)
			8.3	7.7	short-term wholesale funding (5)
Net derivative assets (6)	2.5	3.5	5.5	5.6	Net derivative liabilities (6)

(1) Comprises bank reverse repos of £5.2 billion (31 December 2022 – £4.6 billion) and customer reverse repos of £16.1 billion (31 December 2022 – £16.9 billion).

(2) Comprises bank repos of £3.0 billion (31 December 2022 – £1.6 billion) and customer repos of £24.8 billion (31 December 2022 – £22.1 billion).

(3) Comprises derivative cash collateral given relating to banks of £4.0 billion (31 December 2022 – £4.6 billion) and customers of £6.0 billion (31 December 2022 – £8.1 billion).

(4) Comprises derivative cash collateral received relating to banks of £6.9 billion (31 December 2022 – £7.5 billion) and customers of £8.3 billion (31 December 2022 – £10.2 billion).

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

(6) Refer to page 13 for further details.

- **Total assets and liabilities** increased by £0.7 billion and £1.1 billion to £190.5 billion and £184.3 billion respectively at 30 June 2023, compared with £189.8 billion and £183.2 billion at 31 December 2022. Funded assets, which exclude derivatives, increased by £18.1 billion to £107.7 billion. Derivative fair values decreased in the period, largely driven by market volatility across major currencies and increases in interest rates.
- **Cash and balances at central banks** increased by £4.3 billion to £21.3 billion at 30 June 2023, largely driven by an increase in funding and customer deposits.
- **Trading assets** were up by £3.5 billion to £48.8 billion at 30 June 2023, largely reflecting an increase in securities partially offset by a decrease in derivatives cash collateral given. **Trading liabilities** increased by £3.3 billion to £56.1 billion, driven by increases in repos and short positions, partially offset by a decrease in derivative cash collateral received.
- **Derivative assets and derivative liabilities** were down by £17.4 billion to £82.8 billion and £16.5 billion to £77.1 billion respectively at 30 June 2023, largely driven by market volatility across major currencies and increases in interest rates.
- **Settlement balance assets and liabilities** were up by £9.0 billion and £8.0 billion to £11.6 billion and £10.0 billion respectively, largely due to increased trading compared with the seasonally lower levels of customer activity leading up to 31 December 2022.
- **Customer deposits** increased by £5.4 billion to £9.0 billion in H1 2023, of which £4.2 billion occurred in Q2, in line with our strategy to increase customer deposits to match planned banking book asset growth.
- **Other financial liabilities** increased by £1.4 billion to £22.5 billion (31 December 2022 – £21.1 billion), largely driven by new issuance in the period, partially offset by maturities. The balance at 30 June 2023 includes £16.4 billion of medium-term notes issued.
- **Owners' equity** was down by £0.4 billion to £6.2 billion (31 December 2022 – £6.6 billion), largely driven by reserve movements in the period.

Non-IFRS measures

This document contains a number of non-IFRS measures. For details of the basis of preparation and reconciliations, where applicable, refer to the non-IFRS measures section on page 48.

Risk and capital management

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

Market risk (reviewed)

One-day 99% traded internal VaR

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

	30 June 2023				Half year ended				31 December 2022			
	30 June 2023				30 June 2022				31 December 2022			
	Average	Maximum	Minimum	Period end	Average	Maximum	Minimum	Period end	Average	Maximum	Minimum	Period end
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Interest rate	9.0	19.3	4.3	16.5	7.4	12.6	4.1	6.0	7.3	12.5	4.5	9.0
Credit spread	5.9	6.9	4.9	6.1	8.5	12.0	6.5	6.9	7.2	8.6	6.0	6.4
Currency	2.1	4.9	1.0	1.5	2.8	8.0	1.2	2.3	3.3	6.9	1.5	1.5
Equity	—	0.1	—	—	0.1	0.3	—	—	—	0.3	—	—
Commodity	—	—	—	—	—	—	—	—	—	—	—	—
Diversification (1)	(6.8)			(6.3)	(8.3)			(6.0)	(7.0)			(6.8)
Total	10.2	17.8	6.6	17.8	10.5	15.1	7.2	9.2	10.8	13.7	8.3	10.1

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

- On an average basis, total traded VaR remained at similar levels in H1 2023 compared to 2022.
- The increase in average interest rate VaR, compared to 2022, reflected an increase in yield curve risk in sterling and euro flow trading.
- The decrease in average credit spread VaR reflected lower credit spread volatility in H1 2023.

Risk and capital management

Capital, liquidity and funding risk

Introduction

NWM Group takes a comprehensive approach to the management of capital, liquidity and funding, underpinned by frameworks, risk appetite and policies, to manage and mitigate capital, liquidity and funding risks. The framework ensures the tools and capability are in place to facilitate the management and mitigation of risk ensuring that NWM Group operates within its regulatory requirements and risk appetite.

Capital, RWAs and leverage

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

	30 June 2023	31 December 2022
	%	%
Capital adequacy ratios (1,2)		
CET1	17.6	17.2
Tier 1	20.9	20.4
Total	24.0	25.7
Total MREL	38.8	40.4
Capital (1,2)	£m	£m
CET1	3,542	3,682
Tier 1	4,221	4,361
Total	4,841	5,502
Total MREL (3)	7,822	8,652
Risk-weighted assets		
Credit risk	6,864	7,110
Counterparty credit risk	6,287	5,682
Market risk	5,686	7,152
Operational risk	1,322	1,478
Total RWAs	20,159	21,422

- (1) NWM Plc's total capital ratio requirement is 11.1%, comprising the minimum capital requirement of 8%, supplemented with the capital conservation buffer of 2.5% and the institution specific countercyclical buffer (CCyB) of 0.6%. The minimum CET1 ratio is 7.6%, including the minimum capital requirement of 4.5%. The CCyB is based on the weighted average of NWM Plc's geographical exposures.
- (2) In addition, NWM Plc is subject to Pillar 2A requirements for CET1, AT1 and T2. Refer to the NWM Plc Pillar 3 report for further details on these additional capital requirements.
- (3) Includes senior internal debt instruments issued to NatWest Group plc with a regulatory value of £3.0 billion (31 December 2022 - £3.2 billion).

Leverage

The leverage ratio has been calculated in accordance with the Leverage Ratio (CRR) part of the PRA rulebook.

	30 June 2023	31 December 2022
Leverage exposure (£m) (1)	78,064	81,083
Tier 1 capital (£m)	4,221	4,361
Leverage ratio (%)	5.4	5.4

- (1) 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.

Risk and capital management

Capital, liquidity and funding risk continued

Capital resources (reviewed)

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

	30 June 2023	31 December 2022
	£m	£m
Shareholders' equity		
Shareholders' equity	6,125	6,518
Other equity instruments	(904)	(904)
	5,221	5,614
Regulatory adjustments and deductions		
Own credit	5	11
Defined benefit pension fund adjustment	(166)	(159)
Cash flow hedging reserve	396	284
Prudential valuation adjustments	(171)	(197)
Expected losses less impairments	(4)	(3)
Instruments of financial sector entities where the institution has a significant investment	(1,740)	(1,869)
Adjustments under IFRS 9 transitional arrangements	1	1
	(1,679)	(1,932)
CET1 capital	3,542	3,682
Additional Tier 1 (AT1) capital		
Qualifying instruments and related share premium	904	904
Tier 1 deductions		
Instruments of financial sector entities where the institution has a significant investment	(225)	(225)
Tier 1 capital	4,221	4,361
Qualifying Tier 2 capital		
Qualifying instruments and related share premium	1,012	1,555
Tier 2 deductions		
Instruments of financial sector entities where the institution has a significant investment	(420)	(441)
Other regulatory adjustments	28	27
	(392)	(414)
Tier 2 capital	620	1,141
Total regulatory capital	4,841	5,502

Risk and capital management

Capital, liquidity and funding risk continued

Leverage exposure

The leverage exposure has been calculated in accordance with the Leverage Exposure (CRR) part of the PRA rulebook.

	30 June 2023 £m	31 December 2022 £m
Leverage		
Cash and balances at central banks	14,124	13,467
Trading assets	26,453	27,301
Derivatives	78,737	96,258
Net loans to customers	28,776	27,011
Other assets	7,916	5,024
Total assets	156,006	169,061
Derivatives		
- netting	(77,500)	(95,223)
- potential future exposures	14,988	16,540
Securities financing transactions gross up	790	2,862
Undrawn commitments	5,273	5,239
Regulatory deductions and other adjustments	(6,965)	(3,077)
Exclusion of core UK-group exposures	(407)	(852)
Claims on central banks	(14,121)	(13,467)
Leverage exposure	78,064	81,083

Liquidity portfolio (reviewed)

The table below shows the liquidity portfolio by LCR product, with the incorporation of discounts (or haircuts) used within the internal stressed outflow coverage. Secondary liquidity comprises assets eligible for discount at central banks, which do not form part of the liquid asset portfolio for LCR or stressed outflow coverage purposes. In addition, a reconciliation has been provided between the liquidity portfolio for internal stressed outflow coverage and high quality liquid assets on a regulatory LCR basis.

	Liquidity value	
	30 June 2023 £m	31 December 2022 £m
NatWest Markets Plc		
Cash and balances at central banks	14,132	13,472
AAA to AA- rated governments	4,139	4,766
A+ and lower rated governments	668	59
Government guaranteed issuers, public sector entities and government sponsored entities	—	13
International organisations and multilateral development banks	529	182
LCR level 1 bonds	5,336	5,020
LCR level 1 assets	19,468	18,492
LCR level 2 assets	—	—
Non-LCR eligible assets	—	—
Primary liquidity	19,468	18,492
Secondary liquidity	36	68
Total liquidity value	19,504	18,560
	30 June 2023 £m	
Stressed outflow coverage (SOC) to liquidity coverage ratio (LCR) reconciliation *		
SOC primary liquidity (from table above)	19,468	
Level 1 assets excluded (1)	641	
Level 2 assets excluded (2)	158	
Methodology difference (3)	(119)	
Total LCR high quality liquid assets	20,148	

* Table not within the scope of EY's review report.

- (1) LCR level 1 assets include extremely high quality covered bonds, government guaranteed bonds, and other LCR level 1 assets, which are not included as primary liquidity, but included as inflows in stressed outflow coverage.
- (2) LCR level 2 assets include high quality covered bonds, asset backed securities and other level 2 assets which are not included as primary liquidity but included as outflows in stressed outflow coverage.
- (3) Methodology differences include cash in tills which is classified as LCR level 1 but not included in stressed outflow coverage, JPY bonds which are classified as level 1 for stressed outflow coverage but level 2 for LCR and weighting differences between stressed outflow coverage and LCR.

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

	GBP £m	USD £m	EUR £m	Other £m	Total £m
Total liquidity portfolio					
30 June 2023	8,475	4,323	6,039	667	19,504
31 December 2022	8,660	3,379	6,460	61	18,560

Risk and capital management

Capital, liquidity and funding risk continued

Funding sources (reviewed)

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

	30 June 2023			31 December 2022		
	Short-term less than 1 year £m	Long-term more than 1 year £m	Total £m	Short-term less than 1 year £m	Long-term more than 1 year £m	Total £m
Bank deposits	1,983	718	2,701	2,427	642	3,069
of which: repos (amortised cost)	860	—	860	799	—	799
Customer deposits	8,762	247	9,009	3,353	261	3,614
of which: repos (amortised cost)	—	239	239	—	254	254
Trading liabilities (1)						
Repos (2)	27,554	254	27,808	23,740	—	23,740
Derivative cash collateral received	15,161	—	15,161	17,663	—	17,663
Other bank and customer deposits	775	440	1,215	414	654	1,068
Debt securities in issue	353	361	714	54	743	797
	43,843	1,055	44,898	41,871	1,397	43,268
Other financial liabilities						
Customer deposits (designated fair value)	144	918	1,062	253	797	1,050
Debt securities in issue						
Commercial paper and certificates of deposits	4,636	141	4,777	3,084	85	3,169
Medium term notes (MTNs)	1,927	14,445	16,372	2,368	14,050	16,418
Subordinated liabilities	—	253	253	206	260	466
	6,707	15,757	22,464	5,911	15,192	21,103
Amounts due to holding company and fellow subsidiaries (3)						
Internal MREL	437	2,563	3,000	2,199	974	3,173
Other bank and customer deposits	1,894	—	1,894	1,288	—	1,288
Subordinated liabilities	800	180	980	—	1,519	1,519
	3,131	2,743	5,874	3,487	2,493	5,980
Total funding	64,426	20,520	84,946	57,049	19,985	77,034
<i>Of which: available in resolution (4)</i>			2,996			2,753

(1) Funding sources excludes short positions of £11,211 million (31 December 2022 - £9,524 million) reflected as trading liabilities on the balance sheet.

(2) Comprises Central and other bank repos of £2,500 million (31 December 2022 - £1,642 million), other financial institution repos of £22,674 million (31 December 2022 - £19,354 million) and other corporate repos of £2,634 million (31 December 2022 - £2,744 million).

(3) Amounts due to holding company and fellow subsidiaries relating to non-financial instruments of £83 million (31 December 2022 - £211 million) and intercompany settlement balances of £456 million (31 December 2022 - £26 million) have been excluded from the table.

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

Risk and capital management

Capital, liquidity and funding risk continued

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

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

	Trading liabilities	Other financial liabilities				Amounts due to holding company and fellow subsidiaries		
	Debt securities in issue	Debt securities in issue		Subordinated liabilities	Total	Internal MREL	Subordinated liabilities	Total notes in issue
		Commercial paper and CDs	MTNs					
30 June 2023	£m	£m	£m	£m	£m	£m	£m	£m
Less than 1 year	353	4,636	1,927	—	6,563	437	800	8,153
1-3 years	108	141	9,531	—	9,672	1,711	—	11,491
3-5 years	31	—	4,304	18	4,322	852	—	5,205
More than 5 years	222	—	610	235	845	—	180	1,247
Total	714	4,777	16,372	253	21,402	3,000	980	26,096

31 December 2022

Less than 1 year	54	3,084	2,368	206	5,658	2199	—	7,911
1-3 years	474	73	9,011	—	9,084	974	830	11,362
3-5 years	37	12	4,403	18	4,433	—	—	4,470
More than 5 years	232	—	636	242	878	—	689	1,799
Total	797	3,169	16,418	466	20,053	3,173	1,519	25,542

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

30 June 2023	GBP £m	USD £m	EUR £m	Other £m	Total £m
Commercial paper and CDs	361	2,946	1,470	—	4,777
MTNs	1,621	4,232	8,425	2,808	17,086
External subordinated liabilities	19	17	217	—	253
Internal MREL due to NatWest Group plc	—	2,148	852	—	3,000
Subordinated liabilities due to NatWest Group plc	—	180	800	—	980
Total	2,001	9,523	11,764	2,808	26,096
31 December 2022	1,816	9,892	11,160	2,674	25,542

Risk and capital management

Credit risk – Trading activities (reviewed)

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

Securities financing transactions and collateral

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

	Reverse repos			Repos		
	Total £m	Of which: can be offset £m	Outside netting arrangements £m	Total £m	Of which: can be offset £m	Outside netting arrangements £m
30 June 2023						
Gross	46,942	46,653	289	54,076	53,564	512
IFRS offset	(25,169)	(25,169)	—	(25,169)	(25,169)	—
Carrying value	21,773	21,484	289	28,907	28,395	512
Master netting arrangements	(2,045)	(2,045)	—	(2,045)	(2,045)	—
Securities collateral	(17,817)	(17,817)	—	(26,350)	(26,350)	—
Potential for offset not recognised under IFRS	(19,862)	(19,862)	—	(28,395)	(28,395)	—
Net	1,911	1,622	289	512	—	512
31 December 2022						
Gross	36,945	36,411	534	39,340	34,857	4,483
IFRS offset	(14,547)	(14,547)	—	(14,547)	(14,547)	—
Carrying value	22,398	21,864	534	24,793	20,310	4,483
Master netting arrangements	(2,445)	(2,445)	—	(2,445)	(2,445)	—
Securities collateral	(19,221)	(19,221)	—	(17,865)	(17,865)	—
Potential for offset not recognised under IFRS	(21,666)	(21,666)	—	(20,310)	(20,310)	—
Net	732	198	534	4,483	—	4,483

Debt securities

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

	Central and local government			Financial institutions		Corporate	Total
	UK £m	US £m	Other £m	£m	£m		
30 June 2023							
AAA	—	—	1,452	936	—	—	2,388
AA to AA+	—	5,478	1,596	1,290	3	—	8,367
A to AA-	2,703	—	382	511	102	—	3,698
BBB- to A-	—	—	1,415	227	645	—	2,287
Non-investment grade	—	—	—	58	61	—	119
Unrated	—	—	—	1	—	—	1
Total	2,703	5,478	4,845	3,023	811	—	16,860
Short positions	(2,377)	(2,493)	(4,293)	(1,911)	(137)	—	(11,211)
31 December 2022							
AAA	—	—	469	766	3	—	1,238
AA to AA+	—	2,345	1,042	1,114	21	—	4,522
A to AA-	2,205	—	372	77	29	—	2,683
BBB- to A-	—	—	916	149	296	—	1,361
Non-investment grade	—	—	—	65	49	—	114
Unrated	—	—	—	1	3	—	4
Total	2,205	2,345	2,799	2,172	401	—	9,922
Short positions	(2,313)	(1,293)	(3,936)	(1,875)	(107)	—	(9,524)

Risk and capital management

Credit risk – Trading activities continued (reviewed)

Derivatives

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

	30 June 2023							31 December 2022		
	Notional				Total £bn	Assets £m	Liabilities £m	Notional £bn	Assets £m	Liabilities £m
	GBP £bn	USD £bn	EUR £bn	Other £bn						
Gross exposure						83,918	79,538		101,020	95,478
IFRS offset						(2,953)	(2,953)		(2,509)	(2,509)
Carrying value	2,798	3,604	5,695	1,119	13,216	80,965	76,585	13,470	98,511	92,969
Of which:										
Interest rate ⁽¹⁾	2,515	2,261	5,203	261	10,240	49,981	46,341	10,319	52,529	47,873
Exchange rate	281	1,340	485	858	2,964	30,779	29,999	3,136	45,746	44,821
Credit	2	3	7	—	12	205	245	15	236	275
Carrying value					13,216	80,965	76,585	13,470	98,511	92,969
Counterparty mark-to-market netting						(61,994)	(61,994)		(76,722)	(76,722)
Cash collateral						(12,307)	(7,545)		(14,064)	(9,480)
Securities collateral						(4,213)	(1,540)		(4,210)	(1,185)
Net exposure						2,451	5,506		3,515	5,582
Banks ⁽²⁾						231	801		647	669
Other financial institutions ⁽³⁾						1,258	1,886		1,724	1,936
Corporate ⁽⁴⁾						907	2,785		1,062	2,890
Government ⁽⁵⁾						55	34		82	87
Net exposure						2,451	5,506		3,515	5,582
UK						1,082	3,082		1,257	2,753
Europe						672	1,690		1,195	1,990
US						592	546		753	626
RoW						105	188		310	213
Net exposure						2,451	5,506		3,515	5,582
Asset quality of uncollateralised derivative assets										
AQ1-AQ4						2,026			3,001	
AQ5-AQ8						422			498	
AQ9-AQ10						3			16	
Net exposure						2,451			3,515	

- (1) The notional amount of interest rate derivatives includes £7,442 billion (31 December 2022 – £7,651 billion) in respect of contracts cleared through central clearing counterparties.
- (2) Transactions with certain counterparties with which NWM Group has netting arrangements but collateral is not posted on a daily basis; certain transactions with specific terms that may not fall within netting and collateral arrangements; derivative positions in certain jurisdictions, where the collateral agreements are not deemed to be legally enforceable.
- (3) Includes transactions with securitisation vehicles and funds where collateral posting is contingent on NWM Group's external rating.
- (4) Mainly large corporates with whom NWM Group may have netting arrangements in place, but operational capability does not support collateral posting.
- (5) Sovereigns and supranational entities with no collateral arrangements, collateral arrangements that are not considered enforceable, or one-way collateral agreements in their favour.

Risk and capital management

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

Asset quality

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

	Cash and balances at central banks £m	Sovereign debt securities £m	Loans and other lending £m	Other debt securities £m	Collateralised rate risk management £m	Uncollateralised rate risk management £m	Repo and reverse repo £m	Off- balance sheet items £m	Leasing £m	Total £m
30 June 2023										
AQ1-AQ4	21,305	5,126	9,965	7,159	1,471	1,581	1,457	709	27	48,800
AQ5-AQ8	—	—	745	287	179	275	46	20	—	1,552
AQ9	—	—	27	—	1	—	—	—	—	28
AQ10	—	—	7	1	—	—	—	—	—	8
Current exposure	21,305	5,126	10,744	7,447	1,651	1,856	1,503	729	27	50,388
Potential exposure	21,305	5,126	23,881	7,447	10,437	4,120	2,151	2,028	27	76,522
31 December 2022										
AQ1-AQ4	17,007	5,695	9,987	5,538	2,360	1,964	1,659	596	29	44,835
AQ5-AQ8	—	—	687	305	164	327	25	21	—	1,529
AQ9	—	—	23	—	2	13	—	—	—	38
AQ10	—	—	47	1	—	—	—	—	—	48
Current exposure	17,007	5,695	10,744	5,844	2,526	2,304	1,684	617	29	46,450
Potential exposure	17,007	5,695	24,235	5,844	11,488	4,749	2,206	1,715	29	72,968

- The increase in both current exposure and potential exposure was primarily in the highest quality AQ1-AQ4 band. The reduction in exposure in the AQ10 band was driven by the repayment of a single legacy position.

Risk and capital management

Credit risk – Economics (reviewed)

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 UK portfolios include UK gross domestic product (GDP), world GDP, the unemployment rate, the house price index, and the Bank of England base rate. Similar metrics are used for other key country exposures in NWM Group.

Economic scenarios

At 30 June 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.

Risk and capital management
Credit risk – Economics continued (reviewed)
Economic loss drivers
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

NWM 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 NWM Group's scenarios against a set of 1,000 model runs, following which, a percentile in the distribution is established that most closely corresponded to the scenario. 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, NWM 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.

Risk and capital management
Credit risk – Economics continued (reviewed)
Economic loss drivers
Annual figures

	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
GDP - annual growth					
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
	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
Unemployment rate - annual 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
	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
House price index - four quarter change					
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
	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
Commercial real estate price - four quarter change					
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
	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
Consumer price index - four quarter change					
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
	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
Bank of England base rate - annual 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
	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
UK stock price index - four quarter change					
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

Risk and capital management

Credit risk – Economics continued (reviewed)

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.

Economic loss drivers

Use of the scenarios in lending

The lending scenario methodology is based on the concept of credit cycle indices (CCIs). The CCIs represent 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. NWM 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.

Risk and capital management

Credit risk – Economics continued (reviewed)

Governance and post model adjustments

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

- Deferred model calibrations – ECL adjustments where 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 NWM Group's ongoing ECL adequacy assessment process. A holistic framework has been established including reviewing a range of economic data, external benchmark information and portfolio performance trends with a particular focus on segments of the portfolio (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.

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. NWM Group has assumed that the economic macro variables associated with these scenarios replace the existing base case economic assumptions, giving them a 100% probability weighting and therefore serving as a single economic scenario.

These scenarios 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.

NWM 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.

Risk and capital management

Credit risk – Economics continued (reviewed)

30 June 2023	Actual	Base scenario	Moderate upside scenario	Moderate downside scenario	Extreme downside scenario
Stage 1 modelled loans (£m)	10,995	11,107	11,124	10,995	10,190
Stage 1 modelled ECL (£m)	18	16	14	21	28
Stage 1 coverage (%)	0.16%	0.14%	0.13%	0.19%	0.27%
Stage 2 modelled loans (£m)	295	183	166	295	1,100
Stage 2 modelled ECL (£m)	6	5	3	7	18
Stage 2 coverage (%)	2.03%	2.73%	1.81%	2.37%	1.64%
Stage 1 and Stage 2 modelled loans (£m)	11,290	11,290	11,290	11,290	11,290
Stage 1 and Stage 2 modelled ECL (£m)	24	21	17	28	46
Stage 1 and Stage 2 coverage (%)	0.21%	0.19%	0.15%	0.25%	0.41%
Variance - (lower)/higher to actual total Stage 1 and Stage 2 ECL (£m)		(3)	(7)	4	22
Reconciliation to Stage 1 and Stage 2 flow exposure (£m)					
Modelled loans	11,290	11,290	11,290	11,290	11,290
Other asset classes	30,354	30,354	30,354	30,354	30,354

- (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 Markets Plc 2022 Annual Report and Accounts for 31 December 2022 comparatives.

Measurement uncertainty and ECL adequacy

- 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, NWM 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 NWM Group operates.

Risk and capital management

Credit risk – Banking activities (reviewed)

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

Portfolio summary

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

	30 June 2023 £m	31 December 2022 £m
Loans - amortised cost and fair value through other comprehensive income (FVOCI)		
Stage 1	10,809	10,791
Stage 2	304	497
Stage 3	29	49
<i>Of which: individual</i>	21	37
<i>Of which: collective</i>	8	12
Inter-Group (1)	1,148	434
Total	12,290	11,771
ECL provisions		
Stage 1	18	20
Stage 2	6	8
Stage 3	25	26
<i>Of which: individual</i>	17	15
<i>Of which: collective</i>	8	11
Inter-Group (1)	1	—
Total	50	54
ECL provisions coverage (2)		
Stage 1 (%)	0.17	0.19
Stage 2 (%)	1.97	1.61
Stage 3 (%)	86.21	53.06
Inter-Group (%)	0.09	—
Total	0.44	0.48
	Half year ended	
	30 June 2023 £m	30 June 2022 £m
Impairment (releases)/losses		
ECL (release)/charge		
Stage 1	(2)	2
Stage 2	1	4
Stage 3	(4)	(1)
<i>Of which: individual</i>	(2)	—
<i>Of which: collective</i>	(2)	(1)
Third party	(5)	5
Total	(5)	5
Amounts written-off	2	43

(1) NWM Group's intercompany assets were classified in Stage 1. The ECL for these loans was £0.6 million (31 December 2022 – £0.4 million).

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

(3) The table shows gross loans only and excludes amounts that are outside the scope of the ECL framework. For further details, refer to Financial instruments within the scope of the IFRS 9 ECL framework on page 68 of the NatWest Markets Plc 2022 Annual Report and Accounts. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totalling £21.3 billion (31 December 2022 – £17.0 billion) and debt securities of £12.8 billion (31 December 2022 – £11.8 billion).

(4) The stage allocation of the ECL charge was aligned to the stage transition approach that underpins the analysis in the Flow Statement section.

- The impairment release of £5 million was driven by improved economic conditions compared to the end of 2022 which resulted in a small decrease in provisions coverage.

Risk and capital management

Credit risk – Banking activities continued (reviewed)

Sector analysis – portfolio summary

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

	Loans - amortised cost and FVOCI				Off-balance sheet		ECL provisions			
	Stage 1	Stage 2	Stage 3	Total	Loan commitments	Contingent liabilities	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
30 June 2023										
Property	42	18	15	75	203	14	—	2	9	11
Financial institutions	9,731	109	—	9,840	6,925	548	14	—	—	14
Sovereign	357	—	3	360	62	153	1	—	3	4
Corporate	679	177	11	867	6,432	19	3	4	13	20
Of which:										
Agriculture	1	—	—	1	1	—	—	—	—	—
Airlines and aerospace	—	20	—	20	279	—	—	—	—	—
Automotive	2	—	—	2	594	—	—	—	—	—
Chemicals	9	—	—	9	64	—	—	—	—	—
Health	41	1	—	42	—	—	—	—	—	—
Industrials	153	53	—	206	235	5	—	1	—	1
Land transport and logistics	10	50	—	60	311	2	—	—	—	—
Leisure	1	—	—	1	158	—	—	—	—	—
Mining and metals	—	—	3	3	—	—	—	—	3	3
Oil and gas	2	—	1	3	320	1	—	—	1	1
Power Utilities	104	—	—	104	2,621	2	—	—	—	—
Retail	4	—	—	4	398	2	—	—	—	—
Shipping	2	—	—	2	—	—	—	—	—	—
Water and waste	31	—	—	31	52	—	—	—	—	—
Total	10,809	304	29	11,142	13,622	734	18	6	25	49
31 December 2022										
Property	35	151	15	201	190	14	1	1	8	10
Financial institutions	9,797	116	—	9,913	6,481	586	12	2	—	14
Sovereign	367	—	3	370	59	—	2	—	2	4
Corporate	592	230	31	853	7,180	24	5	5	16	26
Of which:										
Agriculture	—	2	—	2	1	—	—	—	—	—
Airlines and aerospace	—	22	1	23	412	—	—	1	1	2
Automotive	2	43	—	45	623	2	—	1	—	1
Chemicals	13	—	—	13	64	—	—	—	—	—
Health	41	2	1	44	—	—	—	—	1	1
Industrials	34	56	—	90	271	5	1	—	—	1
Land transport and logistics	18	53	—	71	314	1	—	1	—	1
Leisure	1	—	—	1	158	—	—	—	—	—
Mining and metals	—	—	3	3	—	—	—	—	3	3
Oil and gas	3	—	20	23	549	1	—	—	2	2
Power Utilities	118	—	—	118	2,595	2	1	—	—	1
Retail	9	—	—	9	518	4	—	—	—	—
Shipping	2	—	—	2	14	—	—	—	—	—
Water and waste	32	—	—	32	256	—	—	—	—	—
Total	10,791	497	49	11,337	13,910	624	20	8	26	54

Risk and capital management

Credit risk – Banking activities continued (reviewed)

Flow statement

The flow statement that follows shows the main ECL and related income statement movements. It also shows the changes in ECL as well as the changes in related financial assets used in determining ECL. Due to differences in scope, exposures may differ from those reported in other tables, principally in relation to exposures in Stage 1 and Stage 2. These differences do not have a material ECL 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 along with other direct write-off items such as direct recovery costs. Other (P&L only items) affects the income statement but does not affect balance sheet ECL movements.
- Amounts written-off represent the gross asset written-down against accounts with ECL, including the net asset write-down for any debt sale activity.

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
	£m	£m	£m	£m	£m	£m	£m	£m
NWM Group								
At 1 January 2023	39,875	20	491	8	58	26	40,424	54
Currency translation and other adjustments	(1,197)	—	(14)	—	—	—	(1,211)	—
Inter-Group transfers	—	—	—	—	—	—	—	—
Transfers from Stage 1 to Stage 2	(223)	(1)	223	1	—	—	—	—
Transfers from Stage 2 to Stage 1	226	3	(226)	(3)	—	—	—	—
Net re-measurement of ECL on stage transfer		(2)		1		—		(1)
Changes in risk parameters (model inputs)		(3)		1		—		(2)
Other changes in net exposure	2,630	1	(140)	(1)	(28)	—	2,462	—
Other (P&L only items)		2		—		(4)		(2)
Income statement releases		(2)		1		(4)		(5)
Amounts written-off	—	—	(1)	(1)	(1)	(1)	(2)	(2)
At 30 June 2023	41,311	18	333	6	29	25	41,673	49
Net carrying amount	41,293		327		4		41,624	
At 1 January 2022	33,383	6	197	3	95	75	33,675	84
2022 movements	5,686	6	70	—	(27)	(38)	5,729	(32)
At 30 June 2022	39,069	12	267	3	68	37	39,404	52
Net carrying amount	39,057		264		31		39,352	

- The net transfers between ECL stages were minimal, with the overall change driven by changes in net exposure, partially offset by currency translations and other adjustments.

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

	Half year ended	
	30 June 2023	30 June 2022
	£m	£m
Interest receivable	895	243
Interest payable	(817)	(214)
Net interest income	78	29
Fees and commissions receivable	186	180
Fees and commissions payable	(74)	(77)
Income from trading activities	251	296
Other operating income	(11)	10
Non-interest income	352	409
Total income	430	438
Staff costs	(222)	(213)
Premises and equipment	(31)	(25)
Other administrative expenses	(274)	(291)
Depreciation and amortisation	(7)	(11)
Operating expenses	(534)	(540)
Loss before impairment releases/losses	(104)	(102)
Impairment releases/(losses)	5	(5)
Operating loss before tax	(99)	(107)
Tax (charge)/credit	(49)	21
Loss for the period	(148)	(86)
Attributable to:		
Ordinary shareholders	(183)	(120)
Paid-in equity holders	35	33
Non-controlling interests	—	1
	(148)	(86)

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

	Half year ended	
	30 June 2023	30 June 2022
	£m	£m
Loss for the period	(148)	(86)
Items that do not qualify for reclassification		
Remeasurement of retirement benefit schemes	—	(1)
Changes in fair value of credit in financial liabilities designated at FVTPL	(4)	91
FVOCI financial assets	3	1
Tax	(1)	(9)
	(2)	82
Items that do qualify for reclassification		
FVOCI financial assets	4	(17)
Cash flow hedges	(104)	(254)
Currency translation	(144)	170
Tax	(16)	78
	(260)	(23)
Other comprehensive (losses)/income after tax	(262)	59
Total comprehensive loss for the period	(410)	(27)
Attributable to:		
Ordinary shareholders	(445)	(60)
Paid-in equity holders	35	33
	(410)	(27)

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	21,305	17,007
Trading assets	48,832	45,291
Derivatives	82,836	100,154
Settlement balances	11,600	2,558
Loans to banks - amortised cost	1,226	1,146
Loans to customers - amortised cost	9,870	10,171
Amounts due from holding company and fellow subsidiaries	1,297	740
Other financial assets	12,878	11,870
Other assets	689	832
Total assets	190,533	189,769
Liabilities		
Bank deposits	2,701	3,069
Customer deposits	9,009	3,614
Amounts due to holding company and fellow subsidiaries	6,413	6,217
Settlement balances	9,959	2,010
Trading liabilities	56,109	52,792
Derivatives	77,099	93,585
Other financial liabilities	22,464	21,103
Other liabilities	584	816
Total liabilities	184,338	183,206
Owners' equity	6,197	6,565
Non-controlling interests	(2)	(2)
Total equity	6,195	6,563
Total liabilities and equity	190,533	189,769

Condensed consolidated statement of changes in equity
for the half year 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	400	400
Share premium account - at beginning and end of period	1,946	1,946
Paid-in equity - at beginning and end of period	904	904
FVOCI reserve - at beginning of period	3	33
Unrealised gains/(losses)	7	(23)
Realised losses	—	1
Tax	(1)	4
At end of period	9	15
Cash flow hedging reserve - at beginning of period	(294)	47
Amount recognised in equity	(30)	(238)
Amount transferred from equity to earnings	(74)	(16)
Tax	(16)	74
At end of period	(414)	(133)
Foreign exchange reserve - at beginning of period	232	(13)
Retranslation of net assets	(181)	213
Foreign currency gains/(losses) on hedges of net assets	36	(42)
Recycled to profit or loss on disposal of businesses	1	—
At end of period	88	158
Retained earnings - at beginning of period	3,374	4,138
Loss attributable to ordinary shareholders and other equity owners	(148)	(87)
Paid-in equity dividends paid	(35)	(33)
Ordinary dividends paid	—	(250)
Capital contribution (1)	96	—
Realised gains in period on FVOCI equity shares	—	6
Remeasurement of the retirement benefit schemes	—	(1)
Changes in fair value of credit in financial liabilities designated at FVTPL		
- gross	(4)	91
- tax	—	(9)
Share-based payments		
- gross	(19)	(26)
- tax	—	(1)
At end of period	3,264	3,828
Owners' equity at end of period	6,197	7,118
Non-controlling interests - at beginning of period	(2)	(3)
Currency translation adjustments and other movements	—	(1)
Profit attributable to non-controlling interests	—	1
At end of period	(2)	(3)
Total equity at end of period	6,195	7,115
Attributable to:		
Ordinary shareholders	5,293	6,214
Paid-in equity holders	904	904
Non-controlling interests	(2)	(3)
	6,195	7,115

(1) During H1 2023, NatWest Markets invoked a claim against the parent, NatWest Group plc, in respect of a legacy (non-trading) matter which was covered by an indemnity agreement. This resulted in a capital contribution.

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

	Half year ended	
	30 June 2023 £m	30 June 2022 £m
Operating activities		
Operating loss before tax	(99)	(107)
Adjustments for non-cash and other items	263	(634)
Net cash flows from trading activities	164	(741)
Changes in operating assets and liabilities	7,164	13,593
Net cash flows from operating activities before tax	7,328	12,852
Income taxes received/(paid)	69	(36)
Net cash flows from operating activities	7,397	12,816
Net cash flows from investing activities	(425)	(2,106)
Net cash flows from financing activities	(911)	(1,572)
Effects of exchange rate changes on cash and cash equivalents	(751)	1,040
Net increase in cash and cash equivalents	5,310	10,178
Cash and cash equivalents at beginning of period	26,828	25,250
Cash and cash equivalents at end of period	32,138	35,428

Notes

1. Presentation of condensed consolidated financial statements

The condensed consolidated financial statements should be read in conjunction with NatWest Markets 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. Non-interest income

	Half year ended	
	30 June 2023 £m	30 June 2022 £m
Net fees and commissions		
Fees and commissions receivable		
- Lending and financing	39	46
- Brokerage	20	21
- Underwriting fees	71	64
- Other	56	49
Total	186	180
Fees and commissions payable	(74)	(77)
	112	103
Income from trading activities		
Foreign exchange	64	148
Interest rate	212	63
Credit	(34)	33
Changes in fair value of own debt and derivative liabilities attributable to own credit risk		
- debt securities in issue	9	52
	251	296
Other operating income		
Loss on redemption of own debt	(14)	—
Changes in fair value of financial assets and liabilities designated at fair value through profit or loss (1)	(7)	21
Changes in fair value of other financial assets and liabilities designated at fair value through profit or loss	5	10
Other income	5	(21)
	(11)	10
Non-interest income	352	409

(1) Includes related derivatives.

Notes

3. Operating expenses

	Half year ended	
	30 June 2023 £m	30 June 2022 £m
Salaries	130	121
Bonus awards	59	57
Temporary and contract costs	3	2
Social security costs	23	22
Pension costs	7	11
- defined benefit schemes	(3)	3
- defined contribution schemes	10	8
Staff costs	222	213
Premises and equipment	31	25
Depreciation and amortisation	7	11
Other administrative expenses ⁽¹⁾	274	291
Administrative expenses	312	327
Operating expenses	534	540

(1) Includes £258 million (30 June 2022 - £255 million) of recharges from other NatWest Group entities, mainly NWB Plc which provides the majority of shared services (including technology) and operational processes. Also included are litigation and other regulatory costs.

4. Tax

The actual tax credit differs from the expected tax credit 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
Loss before tax	(99)	(107)
Expected tax credit	23	20
Losses and temporary differences in period where no deferred tax asset recognised	—	(12)
Foreign profits taxed at other rates	(2)	2
Items not allowed for tax:		
- losses on disposals and write-downs	—	(1)
- UK bank levy	(2)	(1)
- regulatory and legal actions	2	(2)
Non-taxable items	7	1
Losses brought forward and utilised	8	—
Decrease in the carrying value of deferred tax assets in respect of UK losses	(3)	(21)
Banking surcharge	8	6
Tax on paid-in equity	5	7
UK tax rate change impact	—	22
Adjustments in respect of prior periods	(95)	—
Actual tax (charge)/credit	(49)	21

At 30 June 2023, NWM Group has recognised a deferred tax asset of £43 million (31 December 2022 - £46 million) and a deferred tax liability of £84 million (31 December 2022 - £101 million). These amounts include deferred tax assets recognised in respect of trading losses of £42 million (31 December 2022 - £49 million). NWM Group has considered the carrying value of these assets as at 30 June 2023 and concluded that they are recoverable.

Notes

5. 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			21,305		21,305
Trading assets	48,832				48,832
Derivatives (1)	82,836				82,836
Settlement balances			11,600		11,600
Loans to banks - amortised cost (2)			1,226		1,226
Loans to customers - amortised cost			9,870		9,870
Amounts due from holding company and fellow subsidiaries	120	—	1,148	29	1,297
Other financial assets	45	5,635	7,198		12,878
Other assets				689	689
30 June 2023	131,833	5,635	52,347	718	190,533

Cash and balances at central banks			17,007		17,007
Trading assets	45,291				45,291
Derivatives (1)	100,154				100,154
Settlement balances			2,558		2,558
Loans to banks - amortised cost (2)			1,146		1,146
Loans to customers - amortised cost			10,171		10,171
Amounts due from holding company and fellow subsidiaries	274	—	438	28	740
Other financial assets	80	6,040	5,750		11,870
Other assets				832	832
31 December 2022	145,799	6,040	37,070	860	189,769

	Held-for- trading £m	DFV £m	Amortised cost £m	Other liabilities £m	Total £m
Liabilities					
Bank deposits (3)			2,701		2,701
Customer deposits			9,009		9,009
Amounts due to holding company and fellow subsidiaries	1,462	—	4,871	80	6,413
Settlement balances			9,959		9,959
Trading liabilities	56,109				56,109
Derivatives (1)	77,099				77,099
Other financial liabilities		2,602	19,862		22,464
Other liabilities (4)			50	534	584
30 June 2023	134,670	2,602	46,452	614	184,338

Bank deposits (3)			3,069		3,069
Customer deposits			3,614		3,614
Amounts due to holding company and fellow subsidiaries	1,129	—	4,884	204	6,217
Settlement balances			2,010		2,010
Trading liabilities	52,792				52,792
Derivatives (1)	93,585				93,585
Other financial liabilities		2,722	18,381		21,103
Other liabilities (4)			53	763	816
31 December 2022	147,506	2,722	32,011	967	183,206

(1) Includes net hedging derivative assets of £51 million (31 December 2022 - £122 million) and net hedging derivative liabilities of £328 million (31 December 2022 - £170 million).

(2) Includes items in the course of collection from other banks of £108 million (31 December 2022 - £156 million).

(3) Includes items in the course of transmission to other banks of £44 million (31 December 2022 - £236 million).

(4) Includes lease liabilities of £45 million (31 December 2022 - £47 million), held at amortised cost.

Notes

5. Financial instruments - classification continued

NWM Group's financial assets and liabilities include amounts due from/to the holding company and fellow subsidiaries as below:

	30 June 2023			31 December 2022		
	Holding company £m	Fellow subsidiaries £m	Total £m	Holding company £m	Fellow subsidiaries £m	Total £m
Assets						
Trading assets	—	120	120	—	274	274
Loans to banks - amortised cost	—	1,118	1,118	—	406	406
Loans to customers - amortised cost	17	13	30	18	12	30
Settlement balances	—	—	—	—	2	2
Other assets	—	29	29	—	28	28
Amounts due from holding company and fellow subsidiaries	17	1,280	1,297	18	722	740
Derivatives ⁽¹⁾	1,226	645	1,871	1,074	569	1,643
Liabilities						
Bank deposits - amortised cost	—	333	333	—	108	108
Customer deposits - amortised cost	—	99	99	—	51	51
Trading liabilities	1,046	416	1,462	811	318	1,129
Settlement balances	—	456	456	—	26	26
Other financial liabilities - subordinated liabilities	980	—	980	1,519	—	1,519
MREL instruments issued to NatWest Group plc	3,000	—	3,000	3,173	—	3,173
Other liabilities	—	83	83	16	195	211
Amounts due to holding company and fellow subsidiaries	5,026	1,387	6,413	5,519	698	6,217
Derivatives ⁽¹⁾	165	349	514	252	364	616

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

Notes

5. 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 Markets 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 Markets Plc's 2022 Annual Report and Accounts.

Fair value hierarchy

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

	30 June 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								
Trading assets								
Loans	—	31,695	277	31,972	—	34,974	395	35,369
Securities	13,099	3,761	—	16,860	7,463	2,458	1	9,922
Derivatives	1	81,891	944	82,836	5	99,126	1,023	100,154
Amount due from holding company and fellow subsidiaries	—	120	—	120	—	274	—	274
Other financial assets								
Loans	—	—	137	137	—	34	160	194
Securities	4,360	1,101	82	5,543	4,958	891	77	5,926
Total financial assets held at fair value	17,460	118,568	1,440	137,468	12,426	137,757	1,656	151,839
As % of total fair value assets	13%	86%	1%		8%	91%	1%	
Liabilities								
Amount due to holding company and fellow subsidiaries	—	1,462	—	1,462	—	1,129	—	1,129
Trading liabilities								
Deposits	—	44,183	1	44,184	—	42,470	1	42,471
Debt securities in issue	—	713	1	714	—	797	—	797
Short positions	9,142	2,069	—	11,211	7,462	2,062	—	9,524
Derivatives	1	76,177	921	77,099	2	92,584	999	93,585
Other financial liabilities								
Deposits	—	1,062	—	1,062	—	1,050	—	1,050
Debt securities in issue	—	1,323	—	1,323	—	1,327	—	1,327
Subordinated liabilities	—	217	—	217	—	345	—	345
Total financial liabilities held at fair value	9,143	127,206	923	137,272	7,464	141,764	1,000	150,228
As % of total fair value liabilities	7%	92%	1%		5%	94%	1%	

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

Notes

5. Financial instruments – valuation continued

Valuation adjustments

When valuing financial instruments in the trading book, adjustments are made to mid-market valuations to cover bid-offer spread, funding and credit risk. These adjustments are presented in the table below. For further information refer to the descriptions of valuation adjustments within 'Financial instruments – valuation' on page 133 of NatWest Markets Plc's 2022 Annual Report and Accounts.

	30 June 2023 £m	31 December 2022 £m
Funding – FVA	—	7
Credit – CVA	253	300
Bid – Offer	74	103
Product and deal specific	117	140
Total	444	550

- Valuation reserves comprising credit valuation adjustments (CVA), funding valuation adjustment (FVA), bid-offer and product and deal specific reserves, decreased to £444 million at 30 June 2023 (31 December 2022 – £550 million).
- The decreases in CVA and FVA were driven by a reduction in underlying derivative exposures, with the decrease in FVA primarily driven by increases in interest rates, and the decrease in CVA driven by a combination of tighter credit spreads and increases in interest rates. The decrease in bid-offer was driven by risk reduction over the period.

Level 3 sensitivities

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

	30 June 2023			31 December 2022		
	Level 3 £m	Favourable £m	Unfavourable £m	Level 3 £m	Favourable £m	Unfavourable £m
Assets						
Trading assets						
Loans	277	—	—	395	10	(10)
Securities	—	—	—	1	—	—
Derivatives	944	30	(40)	1,023	50	(50)
Other financial assets						
Loans	137	—	—	160	—	—
Securities	82	10	(10)	77	10	(10)
Total	1,440	40	(50)	1,656	70	(70)
Liabilities						
Trading liabilities						
Deposits	1	—	—	1	—	—
Debt securities in issue	1	—	—	—	—	—
Derivatives	921	30	(30)	999	30	(30)
Total	923	30	(30)	1,000	30	(30)

Alternative assumptions

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

Notes

5. Financial instruments - valuation continued

Movement in level 3 assets and liabilities

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

	Half year ended 30 June 2023				Half year ended 30 June 2022			
	Trading	Other	Total	Total	Trading	Other	Total	Total
	assets (1)	financial	assets	liabilities	assets (1)	financial	assets	liabilities
	£m	assets (2)	£m	£m	£m	assets (2)	£m	£m
At 1 January	1,419	237	1,656	1,000	1,808	156	1,964	617
Amounts recorded in the income statement (3)	(82)	(1)	(83)	(82)	33	(10)	23	148
Amount recorded in the statement of comprehensive income	—	8	8	—	—	(22)	(22)	—
Level 3 transfers in	4	—	4	7	143	—	143	31
Level 3 transfers out	(34)	—	(34)	(5)	(101)	(1)	(102)	(36)
Purchases/originations	92	—	92	89	352	67	419	158
Settlements/other decreases	(24)	—	(24)	(27)	(28)	—	(28)	(15)
Sales	(151)	(24)	(175)	(54)	(530)	—	(530)	(139)
Foreign exchange and other adjustments	(3)	(1)	(4)	(5)	3	—	3	2
At 30 June	1,221	219	1,440	923	1,680	190	1,870	766
Amounts recorded in the income statement in respect of balances held at period end:								
- unrealised	(82)	(1)	(83)	(82)	33	(10)	23	148

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

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

(3) Net losses of nil million on trading assets and liabilities (30 June 2022 - £115 million) were recorded in income from trading activities. Net losses on other instruments of £1 million (30 June 2022 - £10 million) were recorded in other operating income and interest income as appropriate.

Notes

5. Financial instruments - valuation continued

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

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

	Items where fair value approximates carrying value £bn	Carrying value £bn	Fair value £bn	Fair value hierarchy level	
				Level 2 £bn	Level 3 £bn
30 June 2023					
Financial assets					
Cash and balances at central banks	21.3				
Settlement balances	11.6				
Loans to banks	0.1	1.1	1.1	0.5	0.6
Loans to customers		9.9	9.9	0.5	9.4
Amounts due from holding company and fellow subsidiaries	0.1	1.0	1.0	—	1.0
Other financial assets - securities		7.2	7.1	—	7.1

31 December 2022

Financial assets					
Cash and balances at central banks	17.0				
Settlement balances	2.6				
Loans to banks	0.1	1.0	1.0	0.5	0.5
Loans to customers		10.2	10.1	0.9	9.2
Amounts due from holding company and fellow subsidiaries	0.1	0.3	0.3	—	0.3
Other financial assets - securities		5.8	5.7	—	5.7

30 June 2023

Financial liabilities					
Bank deposits	—	2.7	2.7	0.9	1.8
Customer deposits	0.1	8.9	8.9	0.2	8.7
Amounts due to holding company and fellow subsidiaries	0.5	4.4	4.3	3.9	0.4
Settlement balances	10.0				
Other financial liabilities					
Debt securities in issue		19.8	19.2	15.4	3.8
Subordinated liabilities		—	—	—	—

31 December 2022

Financial liabilities					
Bank deposits	0.3	2.8	2.8	0.8	2.0
Customer deposits	0.1	3.5	3.5	0.3	3.2
Amounts due to holding company and fellow subsidiaries	0.2	4.7	4.6	4.6	—
Settlement balances	2.0				
Other financial liabilities					
Debt securities in issue		18.4	17.6	14.8	2.8
Subordinated liabilities		0.1	0.1	0.1	—

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, and customer demand deposits, carrying value is deemed a reasonable approximation of fair value.

Loans to banks and customers

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

Debt securities and subordinated liabilities

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

Bank and customer deposits

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

Notes

6. Trading assets and liabilities

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

	30 June 2023 £m	31 December 2022 £m
Assets		
Loans		
Reverse repos	21,347	21,537
Collateral given	9,966	12,719
Other loans	659	1,113
Total loans	31,972	35,369
Securities		
Central and local government		
- UK	2,703	2,205
- US	5,478	2,345
- Other	4,845	2,799
Financial institutions and Corporate	3,834	2,573
Total securities	16,860	9,922
Total	48,832	45,291
Liabilities		
Deposits		
Repos	27,808	23,740
Collateral received	15,161	17,663
Other deposits	1,215	1,068
Total deposits	44,184	42,471
Debt securities in issue	714	797
Short positions	11,211	9,524
Total	56,109	52,792

Notes

7. Loan impairment provisions

Portfolio summary

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

	30 June 2023 £m	31 December 2022 £m
Loans - amortised cost and fair value through other comprehensive income (FVOCI)		
Stage 1	10,809	10,791
Stage 2	304	497
Stage 3	29	49
<i>Of which: individual</i>	21	37
<i>Of which: collective</i>	8	12
Inter-Group (1)	1,148	434
Total	12,290	11,771
ECL provisions		
Stage 1	18	20
Stage 2	6	8
Stage 3	25	26
<i>Of which: individual</i>	17	15
<i>Of which: collective</i>	8	11
Inter-Group	1	—
Total	50	54
ECL provisions coverage (2)		
Stage 1 (%)	0.17	0.19
Stage 2 (%)	1.97	1.61
Stage 3 (%)	86.21	53.06
Inter-Group (%)	0.09	—
Total	0.44	0.48
	Half year ended	
	30 June 2023 £m	30 June 2022 £m
Impairment losses		
ECL charge/(release)		
Stage 1	(2)	2
Stage 2	1	4
Stage 3	(4)	(1)
<i>Of which: individual</i>	(2)	—
<i>Of which: collective</i>	(2)	(1)
Third party	(5)	5
Inter-Group	—	—
Total	(5)	5
Amounts written-off	2	43

(1) NWM Group's intercompany assets were classified in Stage 1. The ECL for these loans was £0.6 million (31 December 2022 – £0.4 million).

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

(3) The table shows gross loans only and excludes amounts that are outside the scope of the ECL framework. For further details, refer to Financial instruments within the scope of the IFRS 9 ECL framework on page 68 of the NatWest Markets Plc 2022 Annual Report and Accounts. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totalling £21.3 billion (31 December 2022 – £17.0 billion) and debt securities of £12.8 billion (31 December 2022 – £11.8 billion).

Notes

8. Provisions for liabilities and charges

	Litigation and other regulatory	Other ⁽¹⁾	Total
	£m	£m	£m
At 1 January 2023	225	49	274
Currency translation and other movements	(7)	(3)	(10)
Charge to income statement	5	3	8
Release to income statement	(33)	(2)	(35)
Provisions utilised	(62)	(12)	(74)
At 30 June 2023	128	35	163

(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

No interim ordinary dividends were paid to NWM Plc's parent company NatWest Group plc during H1 2023 (H1 2022 – £250 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 the NWM Group is exposed to credit risk in the event of a customer's failure to meet its obligations, the amounts shown do not, and are not intended to, provide any indication of NWM Group's expectation of future losses.

	30 June 2023	31 December 2022
	£m	£m
Contingent liabilities and commitments		
Guarantees	708	594
Other contingent liabilities	26	30
Standby facilities, credit lines and other commitments	13,903	13,973
Total	14,637	14,597

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

Risk-sharing arrangements

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

- The provision of a funded guarantee of up to £1.0 billion by NWM Plc to NWM N.V. that limits certain NWM N.V.'s exposures to large individual customer credits. Funding is provided by NWM Plc deposits placed with NWM N.V. of not less than the guaranteed amount. At 30 June 2023 the deposits amounted to £0.8 billion and the guarantee fees in the period were £2.4 million.
- The provision of a funded and an unfunded guarantee by NWM Plc in respect of NWM N.V.'s legacy portfolio. At 30 June 2023 the exposure at default covered by the guarantees was approximately £0.2 billion (of which £27 million was cash collateralised). Fees of £0.7 million in relation to the guarantees were recognised in the period.

Indemnity deed

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

Notes

11. Litigation and regulatory matters

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

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

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

There are situations where NWM Group may pursue an approach that in some instances leads to a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, or in order to take account of the risks inherent in defending claims or regulatory matters, even for those Matters for which NWM Group believes it has credible defences and should prevail on the merits. The uncertainties inherent in all such Matters affect the amount and timing of any potential outflows for both Matters with respect to which provisions have been established and other contingent liabilities 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 NWM Group has recognised. Where (and as far as) liability cannot be reasonably estimated, no provision has been recognised. NWM Group expects that in future periods, additional provisions, settlement amounts and customer redress payments will be necessary, in amounts that are expected to be substantial in some instances. Please refer to Note 8 for information on material provisions.

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

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

Litigation

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

NatWest Markets Securities Inc. (NWMSI) was defending an RMBS-related claim in the US in which the plaintiff, the Federal Deposit Insurance Corporation (FDIC), alleged that certain disclosures made in connection with the relevant offerings of RMBS contained materially false or misleading statements and/or omissions regarding the underwriting standards pursuant to which the mortgage loans underlying the RMBS were issued. In June 2023, NWMSI entered into an agreement to resolve that claim. The settlement amount paid by NWMSI was covered by an existing provision.

London Interbank Offered Rate (LIBOR) and other rates litigation

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

Several purported class actions relating to USD LIBOR, as well as more than two dozen non-class actions concerning USD LIBOR, are part of a coordinated proceeding in the SDNY. The class actions include claims on behalf of persons who purchased LIBOR-linked instruments from defendants, bonds issued by defendants, persons who transacted futures and options on exchanges, and lenders who made LIBOR-based loans. The coordinated proceeding is currently in the discovery phase. In March 2020, NatWest Group companies finalised a settlement resolving the class action on behalf of bondholder plaintiffs (those who held bonds issued by non-defendants on which interest was paid from 2007 to 2010 at a rate expressly tied to USD LIBOR). The amount of the settlement (which was covered by an existing provision) was paid into escrow pending court approval of the settlement.

The non-class claims filed in the SDNY include claims that the FDIC is asserting on behalf of certain failed US banks. In July 2017, the FDIC, on behalf of 39 of those failed US banks, commenced substantially similar claims against NWM Plc, NatWest Group plc and others in the High Court of Justice of England and Wales. The action alleges collusion with regard to the setting of USD LIBOR and that the defendants breached UK and European competition law, as well as asserting common law claims of fraud under US law. The defendant banks consented to a request by the FDIC for discontinuance of the claim in respect of 20 failed US banks, leaving 19 failed US banks as claimants. The trial is currently anticipated to take place in Q4 2025.

Notes

11. Litigation and regulatory matters continued

In addition to the USD LIBOR cases described above, there are two class actions relating to JPY LIBOR and Euroyen TIBOR. The first class action, which relates to Euroyen TIBOR futures contracts, was dismissed by the SDNY in September 2020 on jurisdictional and other grounds, and that decision was affirmed by the United States Court of Appeals for the Second Circuit (US Court of Appeals) in October 2022. The plaintiffs petitioned the court for a rehearing of their appeal and that petition was denied. The second class action, which relates to other derivatives allegedly tied to JPY LIBOR and Euroyen TIBOR, was dismissed by the SDNY in relation to NWM Plc and other NWM Group companies in September 2021. That dismissal may be the subject of a future appeal.

Two other IBOR-related class actions, concerning alleged manipulation of Euribor and Pound Sterling LIBOR, were previously dismissed by the SDNY for various reasons. The plaintiffs' appeals in those two cases remain pending.

In June 2021, NWM Plc and the plaintiffs in the Swiss Franc LIBOR class action finalised a settlement resolving that case. The amount of that settlement has been paid into escrow pending final court approval of the settlement.

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, NWM Plc, NWMSI 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.

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

FX litigation

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

In April 2019, some of the claimants in the opt-out case described above, as well as others, served proceedings in the High Court of Justice of England and Wales, asserting competition claims against NWM Plc and several other banks. The claim was transferred from the High Court of Justice of England and Wales in December 2021 and registered in the UK Competition Appeal Tribunal (CAT) in January 2022. In March 2023, NWM Plc entered into an agreement to resolve both the SDNY and CAT cases. The settlement amount paid by NWM Plc was covered by an existing provision.

An FX-related class action, on behalf of 'consumers and end-user businesses', was proceeding in the SDNY against NWM Plc and others. In March 2023, the court granted summary judgment in favour of the defendants, dismissing the plaintiffs' claims. The plaintiffs have commenced an appeal of that decision as well as a prior decision denying class certification in the case.

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

In July and December 2019, two separate applications seeking opt-out collective proceedings orders were filed in the CAT against NatWest Group plc, NWM Plc and other banks. Both applications were brought on behalf of persons who, between 18 December 2007 and 31 January 2013, entered into a relevant FX spot or outright forward transaction in the EEA with a relevant financial institution or on an electronic communications network. In March 2022, the CAT declined to certify as collective proceedings either of the applications, which was appealed by the applicants, and the subject of an application for judicial review. In July 2023, the Court of Appeal allowed the appeal and decided that the claims should proceed on an opt-out basis. Separately, the court determined which of the two competing applicants can proceed as class representative, and dismissed the application for judicial review of the CAT's decision. Subject to any potential appeal to the UK Supreme Court, the case will be remitted to the CAT for further case management.

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

Notes

11. Litigation and regulatory matters continued

In December 2021, a claim was filed in the Netherlands against NatWest Group plc, NWM Plc and NWM N.V. by Stichting FX Claims on behalf of a number of claimants, seeking a declaration from the court that anti-competitive FX market conduct described in decisions of the European Commission (EC) of 16 May 2019 is unlawful, along with unspecified damages. The claimants amended their claim to also refer to a December 2021 decision by the EC, which described anti-competitive FX market conduct. The defendants contested the jurisdiction of the Dutch court. In March 2023, the district court in Amsterdam accepted that it has jurisdiction to hear claims against NWM N.V. but refused jurisdiction to hear any claims against the other defendant banks (including NatWest Group plc and NWM Plc) unless the claimants are domiciled in the Netherlands. Certain of the claimants are so domiciled and are therefore permitted to continue with their claims against all defendants, including NatWest Group plc and NWM Plc. The claimants are appealing that decision. In June 2023, a new group of claimants indicated their intention to join Stichting FX Claims to pursue similar claims against the defendants.

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

Government securities antitrust litigation

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

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

Swaps antitrust litigation

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

In June 2021, a class action antitrust complaint was filed against a number of credit default swap dealers in New Mexico federal court on behalf of persons who, from 2005 onwards, settled credit default swaps in the United States by reference to the ISDA credit default swap auction protocol. The complaint alleges that the defendants conspired to manipulate that benchmark through various means in violation of the antitrust laws and the Commodity Exchange Act. The defendants filed a motion to dismiss the complaint and, in June 2023, such motion was denied as regards NWMSI and other financial institutions, but granted as regards to NWM Plc on the ground that the court lacks jurisdiction over that entity. As a result, the case is now expected to enter the discovery phase as against the non-dismissed defendants.

Odd lot corporate bond trading antitrust litigation

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

Spoofing litigation

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

Madoff

NWM N.V. was named as a defendant in two actions filed by the trustee for the bankrupt estates of Bernard L. Madoff and Bernard L. Madoff Investment Securities LLC, in bankruptcy court in New York, which together seek to clawback more than US\$298 million that NWM N.V. allegedly received from certain Madoff feeder funds and certain swap counterparties. The claims were previously dismissed, but as a result of an August 2021 decision by the US Court of Appeals, they will now proceed in the bankruptcy court, where they have been consolidated into one action, subject to NWM N.V.'s legal and factual defences. In May 2022, NWM N.V. filed a motion to dismiss the amended complaint in the consolidated action and such motion was denied in March 2023. As a result, the case is now expected to enter the discovery phase.

Notes

11. Litigation and regulatory matters continued

EUA trading litigation

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

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

US Anti-Terrorism Act litigation

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

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

The first of these actions, alleging conspiracy claims but not aiding and abetting claims, was filed in the United States District Court for the Eastern District of New York in November 2014. In September 2019, the district court dismissed the case, finding that the claims were deficient for several reasons, including lack of sufficient allegations as to the alleged conspiracy and causation. In January 2023, the US Court of Appeals affirmed the district court's dismissal of this case. It is anticipated that the plaintiffs will file a motion to re-open the case to assert aiding and abetting claims that they previously did not assert. Another action, filed in the SDNY in 2017, which asserted both conspiracy and aiding and abetting claims, was dismissed by the SDNY in March 2019 on similar grounds as the first case, but remains subject to appeal to the US Court of Appeals. Other follow-on actions that are substantially similar to those described above are pending in the same courts.

1MDB litigation

A Malaysian court claim was served in Switzerland in November 2022 by 1MDB, a Sovereign Wealth Fund, in which Coutts & Co Ltd was named, along with six others, as a defendant in respect of losses allegedly incurred by 1MDB. It is claimed that Coutts & Co Ltd is liable as a constructive trustee for having dishonestly assisted the directors of 1MDB in the breach of their fiduciary duties by failing (amongst other alleged claims) to undertake due diligence in relation to a customer of Coutts & Co Ltd, through which funds totalling c.US\$1 billion were received and paid out between 2009 and 2011. The claimant seeks the return of that amount plus interest. Coutts & Co Ltd filed an application in January 2023 challenging the validity of service and the Malaysian court's jurisdiction to hear the claim.

In April 2023, the claimant filed a notice of discontinuance of its claim against certain defendants including Coutts & Co Ltd. The claimant subsequently indicated that it intends to issue further replacement proceedings. Coutts & Co Ltd is challenging the claimant's ability to take that step and a hearing took place in the Malaysian Court in June 2023 to consider the validity of any new proceedings. Judgment is awaited.

Coutts & Co Ltd is a company registered in Switzerland and is in wind-down following the announced sale of its business assets in 2015.

Regulatory matters (including investigations)

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

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

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

Notes

11. Litigation and regulatory matters continued

US investigations relating to fixed-income securities

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

As required by the resolution and sentence imposed by the court, NWM Plc is subject to a three-year period of probation. The plea agreement also imposes an independent corporate monitor. In addition, NWM Plc has committed to compliance programme reviews and improvements and agreed to reporting and co-operation obligations.

Other material adverse collateral consequences may occur as a result of this matter, as further described in the Risk Factor relating to legal, regulatory and governmental actions and investigations set out on page 191 of the NatWest Markets Plc 2022 Annual Report and Accounts.

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%.

NWM 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, NWM 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, NWM 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, NWM Group may seek to invest in third parties or allow third parties to hold a minority interest in a subsidiary of NWM 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) NWM Group is recharged from other NatWest Group entities, mainly NWB Plc which provides the majority of shared services (including technology) and operational processes.

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

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

13. Post balance sheet events

Other than as disclosed in this document, there have been no other 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 NatWest Markets Plc

Conclusion

We have been engaged by NatWest Markets plc ("the Group") to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2023 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement, and related Notes 1 to 14, and the Risk and capital management disclosures for those identified as within the scope of our review. 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 Markets Plc Summary Risk Factors

Summary of Principal risks and uncertainties

Set out below is a summary of the principal risks and uncertainties for the remaining six months of the financial year which could adversely affect NWM Group. This summary should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties; a fuller description of these and other risk factors is included on pages 173 to 193 of the NatWest Markets Plc 2022 Annual Report and Accounts and pages 15 to 48 of the NWM Plc Registration Document dated 15 March 2023 (as supplemented and amended from time to time). Any of the risks identified may have a material adverse effect on NWM Group's business, operations, financial condition or prospects.

Economic and political risk

- NWM Group, 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.
- Fluctuations in currency exchange rates may adversely affect NWM Group's results and financial condition.
- Changes in interest rates have affected, and will continue to affect, NWM Group's business and results.
- Continuing uncertainty regarding the effects and extent of the UK's post Brexit divergence from EU laws and regulation, and NWM Group's post Brexit EU operating model may adversely affect NWM Group and its operating environment. As of 30 June 2023, NWM N.V. surpassed a balance sheet total of EUR 30 billion at the regulatory consolidated level. By exceeding this threshold, NWM N.V. will most likely qualify as a "significant institution" in the foreseeable future, which may result in changes to supervision and regulations applicable to it. This could impact NWM Group's business strategy, operating model and prudential requirements.
- HM Treasury (or UKGI on its behalf) could exercise a significant degree of influence over NatWest Group and NWM Group is controlled by NatWest Group.

Strategic risk

- NWM Group has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy and NatWest Group's recent creation of its C&I business segment (of which NWM Group forms part) and may continue to be subject to significant structural and other change.

Financial resilience risk

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

Climate and sustainability-related risks

- NWM Group and its customers, suppliers and counterparties face significant climate and sustainability-related risks, which may adversely affect NWM 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 NWM 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 NWM Group.

NatWest Markets Plc Summary Risk Factors

Summary of Principal risks and uncertainties continued

- NWM 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 NWM Group) or NWM Group could have a negative impact on NatWest Group's (including NWM Group's) or NWM Group's reputation and on investors' risk appetite and customers' willingness to deal with NatWest Group (including NWM Group) or NWM Group.

Operational and IT resilience risk

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

Legal, regulatory and conduct risk

- NWM Group's businesses are subject to substantial regulation and oversight, which are constantly evolving and may adversely affect NWM Group.
- NWM Group is exposed to the risk of various litigation matters, regulatory and governmental actions and investigations as well as remedial undertakings, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on NWM Group.
- NWM Group may not effectively manage the transition of LIBOR and other IBOR rates to 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 NWM Group.

Statement of directors' responsibilities

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

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

By order of the Board

Frank Dangeard
Chairman

Robert Begbie
Chief Executive Officer

Simon Lowe
Chief Financial Officer

27 July 2023

Board of directors

Chairman

Frank Dangeard

Executive directors

Robert Begbie
Simon Lowe

Non-executive directors

Anne Simpson
Tamsin Rowe
Vivek Ahuja

Non-IFRS financial measures

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

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

Non-IFRS financial measures

Operating expenses – management view

	Half year ended					
	30 June 2023			30 June 2022		
	Litigation and conduct costs £m	Other operating expenses £m	Statutory operating expenses £m	Litigation and conduct costs £m	Other operating expenses £m	Statutory operating expenses £m
Staff costs	4	218	222	2	211	213
Premises and equipment	—	31	31	—	25	25
Depreciation and amortisation	—	7	7	—	11	11
Other administrative expenses	(12)	286	274	18	273	291
Total	(8)	542	534	20	520	540

	Quarter ended 30 June 2023		
	Litigation and conduct costs £m	Other operating expenses £m	Statutory operating expenses £m
	£m	£m	£m
Staff costs	3	106	109
Premises and equipment	—	16	16
Depreciation and amortisation	—	4	4
Other administrative expenses	(19)	139	120
Total	(16)	265	249

	Quarter ended 31 March 2023		
	Litigation and conduct costs £m	Other operating expenses £m	Statutory operating expenses £m
	£m	£m	£m
Staff costs	1	112	113
Premises and equipment	—	15	15
Depreciation and amortisation	—	3	3
Other administrative expenses	7	147	154
Total	8	277	285

	Quarter ended 30 June 2022		
	Litigation and conduct costs £m	Other operating expenses £m	Statutory operating expenses £m
	£m	£m	£m
Staff costs	2	78	80
Premises and equipment	—	1	1
Depreciation and amortisation	—	7	7
Other administrative expenses	10	151	161
Total	12	237	249

Presentation of information

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

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

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.

MAR – Inside Information

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

Contact

Paul Pybus

Investor Relations

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Forward-looking statements.

This document contains forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995, such as statements that include, without limitation, the words 'expect', 'estimate', 'project', 'anticipate', 'commit', 'believe', 'should', 'intend', 'will', 'plan', 'could', 'probability', 'risk', 'Value-at-Risk (VaR)', 'target', 'goal', 'objective', 'may', 'endeavour', 'outlook', 'optimistic', 'prospects' and similar expressions or variations on these expressions. These statements concern or may affect future matters, such as NWM Group's future economic results, business plans and strategies. In particular, this document may include forward-looking statements relating to NWM Group in respect of, but not limited to: its economic and political risks (including due to high inflation, supply chain disruption and the Russian invasion of Ukraine), its regulatory capital position and related requirements, its financial position, profitability and financial performance (including financial, capital, cost savings and operational targets), implementation of NWM Group's strategy and NatWest Group's purpose-led strategy and NatWest Group's recent creation of its Commercial & Institutional franchise (of which NWM Group forms part), its ESG and climate related targets, its access to adequate sources of liquidity and funding, increasing competition from new incumbents and disruptive technologies, its exposure to third party risks, its ongoing compliance with the UK ring-fencing regime and ensuring operational continuity in resolution, its 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 other IBOR rates to replacement risk-free rates and NWM Group's exposure to operational risk, conduct risk, financial crime risk, cyber, data and IT risk, key person risk and credit rating risk. Forward-looking statements are subject to a number of risks and uncertainties that might cause actual results and performance to differ materially from any expected future results or performance expressed or implied by the forward-looking statements. Factors that could cause or contribute to differences in current expectations include, but are not limited to, the outcome of legal, regulatory and governmental actions and investigations, the level and extent of future impairments and write-downs, legislative, political, fiscal and regulatory developments, accounting standards, competitive conditions, technological developments, interest and exchange rate fluctuations, general economic and political conditions, the impact of climate related risks and the transitioning to a net zero economy. These and other factors, risks and uncertainties that may impact any forward-looking statement or NWM Group's actual results are discussed in NWM Plc's 2022 Annual Report and Accounts (ARA), NWM Group's Interim Management Statement for Q1 and H1 2023, and other public filings. The forward-looking statements contained in this document speak only as of the date of this document and NWM Group does not assume or undertake any obligation or responsibility to update any of the forward-looking statements contained in this document, whether as a result of new information, future events or otherwise, except to the extent legally required.

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