Nationwide
Building Society

Interim Results

For the period ended **30 September 2017**

Contents

Introduction
Unless otherwise stated, the income statement analysis compares the period from 5 April 2017 to 30 September 2017 to the corresponding six months of 2016 and balance sheet analysis at 30 September 2017 with comparatives at 4 April 2017.

Underlying profit
Profit before tax shown on a statutory and underlying basis is set out on page 5. Statutory profit before tax of £628 million has been adjusted for a number of items to derive an underlying profit before tax of £588 million. The purpose of this measure is to reflect management's view of the Group's underlying performance and to assist with like for like comparisons of performance across periods. Underlying profit is not designed to measure sustainable levels of profitability as it potentially requires exclusion of non-recurring items even though they are closely related to (or even a direct consequence of) the Group's core business activities.

Nationwide has developed a financial performance framework based on the fundamental principle of maintaining its capital at a prudent level in excess of regulatory requirements. The framework provides parameters which allow it to calibrate future performance and help ensure that it achieves the right balance between distributing value to members, investing in the business and maintaining financial strength. The most important of these parameters is underlying profit which is a key component of Nationwide's capital. In this context, Nationwide currently believes that generating underlying profit of approximately £0.9 billion to £1.3 billion per annum over the medium term is an appropriate target for capital planning purposes. This range is based on our current assumptions as to the size of the mortgage market, and maintaining a UK leverage ratio in excess of 4%. This range, which will vary from time to time, should not be construed as a forecast of the likely level of Nationwide's underlying profit for any financial year or period within a financial year.

Forward looking statements
Certain statements in this document are forward looking with respect to plans, goals and expectations relating to the future financial position, business performance and results of Nationwide. Although Nationwide believes that the expectations reflected in these forward looking statements are reasonable, Nationwide can give no assurance that these expectations will prove to be an accurate reflection of actual results. By their nature, all forward looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of Nationwide including, amongst other things, UK domestic and global economic and business conditions, market related risks such as fluctuation in interest rates and exchange rates, inflation/deflation, the impact of competition, changes in customer preferences, risks concerning borrower credit quality, delays in implementing proposals, the timing, impact and other uncertainties of future acquisitions or other combinations within relevant industries, the policies and actions of regulatory authorities, the impact of tax or other legislation and other regulations in the jurisdictions in which Nationwide operates. As a result, Nationwide's actual future financial condition, business performance and results may differ materially from the plans, goals and expectations expressed or implied in these forward looking statements. Due to such risks and uncertainties Nationwide cautions readers not to place undue reliance on such forward looking statements.

Nationwide undertakes no obligation to update any forward looking statements whether as a result of new information, future events or otherwise.

This document does not constitute or form part of an offer of securities for sale in the United States. Securities may not be offered or sold in the United States absent registration or an exemption from registration. Any public offering to be made in the United States will be made by means of a prospectus that may be obtained from Nationwide and will contain detailed information about Nationwide and management as well as financial statements.

NATIONWIDE DELIVERS £245M OF MEMBER FINANCIAL BENEFIT AND GAINS MORE CURRENT ACCOUNT SWITCHERS THAN THE MAJOR BANKS COMBINED[1]

First choice for switchers, gaining more than three times as many switchers as nearest rival[1]
Helped a record 39,500 first time buyers into homes
Highest customer satisfaction in high street peer group[2]

Delivering strong profits and enhancing financial strength

- Statutory profit of £628m (H1 2016/17: £696m); underlying profit[3] of £588m (H1 2016/17: £615m)
- Profits include £26m one-off gain from VocaLink disposal (H1 2016/17: £100m one-off gain from Visa disposal)
- Capital strength at all-time high: CET1 ratio of 29.6% and UK leverage ratio of 4.9%, strengthened by issuance of £0.8bn of core capital deferred shares (4 April 2017: 25.4% and 4.4% respectively)
- Underlying cost income ratio of 59.0% (H1 2016/17: 57.1%), down from 60.2% for the full year 2016/17; on track for broadly flat costs for the full year

Demonstrating mutual value, rewarding members with £245m financial benefit

- Supported savings members, paying them £180m in extra interest (H1 2016/17: £185m) by keeping average rates around 50% higher than the market average[4]
- Rewarded members holding other products with better than average rates[4], incentives and fees

Helping a record 39,500 first time buyers onto the housing ladder

- Prime mortgage gross lending increased to £15.0bn (H1 2016/17: £14.7bn)
- Helped a record 39,500 first time buyers into homes, 1 in 5 of total (H1 2016/17: 38,600)
- Buy to let gross lending reduced to £1.7bn reflecting changes in the market (H1 2016/17: £2.8bn)
- Grew member deposit balances by £1.8bn in a challenging market (H1 2016/17: £4.7bn)

Leading current account attracts over three times as many net switchers as nearest competitor[1]

- Remained UK's top choice for current accounts[5]
- Added more current account switchers than the major banks combined[1]
- Continued record current account growth, opening 427,000 accounts in the period, up 13%
- Grew stock share of youth accounts to 10.3% from 8.2%

Remained top for customer satisfaction in our high street peer group[2]

- Remaining at top for most trusted financial brand[6], offering digital convenience with a human touch
- Grew active mobile users by 15.5%
- Investing in new branch formats in 20 locations nationwide

Well placed to support members in uncertain times

- Household incomes being squeezed by slowing growth and inflation, but borrowing costs will stay low
- Modest growth outlook expected to limit further rate rises and constrain housing market
- Mortgage demand has been strong, but intensifying competition may lead to a moderation in our volumes
- Nationwide's financial strength means we can support our members in uncertain times

Nationwide Chief Executive, Joe Garner, said:

"Nationwide is delivering strong profits through growing our membership and providing the best customer satisfaction in our high street peer group[2]. As a building society we are able to manage our profits in our members' interests, investing in current and future services to improve the lives of our members.

"People are attracted to Nationwide because we care, we deliver fair and good value products and services, and because of our mutual philosophy. Nationwide gained more than three times as many current account switchers as our nearest rival[1].

"Our customer satisfaction remains the best in our high street peer group[2]. We aspire to become as well known for our service outside our industry, and were delighted to make the *Which?* all-industry customer service top 10 this year.

"We've demonstrated the value of mutuality in the period by returning £245 million to members in the form of better than average interest rates[4], lower fees and higher incentives (H1 2016/17: £250 million). We know that exceptionally low interest rates have placed a strain on savers, so we've chosen to protect them by directing most of this financial benefit into higher savings rates: our average savings rates in the period were approximately 50% higher than the average market rate[4]. We were the first in the industry to respond to the recent base rate rise, passing on the full benefit to those members whose savings rates fell by 0.25% following the last base rate reduction in August 2016.

"Building societies were founded to help people into their own homes and, with consumers increasingly struggling to get on the housing ladder today, we're proud to continue to support homebuyers. In the last six months, we helped a record 39,500 first time buyers into their first home (H1 2016/17: 38,600), and a further 47,700 homeowners to move or re-mortgage (H1 2016/17: 48,500). We are extending choice for older members too, with the launch today of our new Lifetime Mortgage, which will allow people to access equity in their home in later life.

"Looking ahead, the UK economy should continue to grow, albeit at a slower rate due to the uncertainties around Brexit. Despite the recent base rate rise, borrowing costs overall remain low. However, we know that low wage growth and inflation are putting pressure on household budgets and we remain alert to signs of financial strains on consumers.

"Nationwide is in very good shape after another strong set of results. The second half may bring tougher trading conditions, but we remain well placed to stand by our members in these uncertain times. Nationwide is financially secure and will continue to promote the long-term interests of both the Society and our members."

Nationwide Chief Financial Officer, Mark Rennison, said:

"Nationwide has traded strongly in a highly competitive market in the first six months of the year. Our statutory profit before tax was £628 million for the period (H1 2016/17: £696 million), and our underlying profit was £588 million (H1 2016/17: £615 million). After excluding one-off gains[7], profits increased year on year.

"This strong performance was underpinned by business growth and lower cost growth. We grew our current account base substantially, exceeding 7 million accounts for the first time, we increased prime mortgage gross lending, and maintained our share of retail deposits. Cost growth was contained to 3%, and is on track to be broadly flat for the full year.

"Our capital strength reached an all-time high, with a CET1 ratio of 29.6% (4 April 2017: 25.4%) and a UK leverage ratio of 4.9% (4 April 2017: 4.4%), well above regulatory requirements. This was supported by issuing a second tranche of CCDS, a form of Common Equity Tier 1 capital specific to building societies, demonstrating capacity and liquidity in the CCDS market. Our offer was more than two times over-subscribed, reflecting the Society's financial strength, and raised £0.8 billion of capital. We remain on course to meet our Minimum Requirement for Own Funds and Eligible Liabilities in advance of the regulatory January 2020 target date."

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[1] Source: Current Account Switch Service Dashboard, Issue 16 quarterly participant data, 3 months to March 2017.
[2] © GfK 2017, Financial Research Survey (FRS), 12 months ending 30 September 2017 vs 31 March 2017, proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across current account, mortgage and savings. High street peer group defined as providers with main current account market share >4% (Barclays, Halifax, HSBC, Lloyds Bank (inc C&G), NatWest, Santander and TSB).
[3] Underlying profit represents management's view of underlying performance and excludes bank levy charges, FSCS costs and gains/losses from derivatives and hedge accounting.
[4] Market average interest rates are based on Bank of England whole of market average interest rates adjusted to exclude Nationwide's balances.
[5] Source: Nationwide Brand and Advertising tracker - compiled by Independent Research Agency. 'Top choice' is most considered ie 'first choice' or 'seriously considered' current account provider amongst non-customers, based on responses from non-customers of each brand, 3 months ending September 2017. Financial brands included Nationwide, Barclays, Cooperative Bank, First Direct, Halifax, HSBC, Lloyds, NatWest, TSB and Santander.
[6] Source: Nationwide Brand and Advertising tracker - compiled by Independent Research Agency, based on all consumer responses, 3 months ending September 2017. Financial brands included Nationwide, Barclays, Co-operative Bank, First Direct, Halifax, HSBC, Lloyds, NatWest, TSB and Santander. Nationwide's lead on trust is not statistically significant and therefore positioned as joint top with Halifax.
[7] H1 2017/18: £26m one-off gain from sale of investment in VocaLink (H1 2016/17: £100m one-off gain from the sale of investment in Visa Europe).

Financial summary

	Half year to 30 September 2017		Half year to 30 September 2016	
Financial performance	**£m**		£m	
Total underlying income	**1,639**		1,642	
Underlying profit before tax	**588**		615	
Statutory profit before tax	**628**		696	
Mortgage lending	**£bn**	**%**	£bn	%
Group residential – gross/*gross market share*	**16.7**	***12.9***	17.5	*14.5*
Group residential – net/*net market share*	**3.9**	***16.5***	6.0	*33.9*
	%		%	
Average loan to value of new residential lending (by value)	**71**		71	
Deposit balances	**£bn**	**%**	£bn	%
Member deposits balance movement/*market share* (note i)	**1.8**	***7.8***	4.7	*10.3*
Net receipts (note ii)	**(0.5)**		3.7	
Key ratios	**%**		%	
Cost income ratio – underlying basis	**59.0**		57.1	
Cost income ratio – statutory basis	**57.7**		54.6	
Net interest margin	**1.34**		1.33	

	30 September 2017		4 April 2017	
Balance sheet	**£bn**	**%**	£bn	%
Total assets	**227.5**		221.7	
Loans and advances to customers	**190.7**		187.4	
Member deposits/*market share* (note i)	**146.4**	***10.0***	144.5	*10.1*
Asset quality	**%**		%	
Residential mortgages				
Proportion of residential mortgage accounts 3 months+ in arrears	**0.44**		0.45	
Average indexed loan to value of residential mortgage book (by value)	**55**		55	
Total provisions as % of non-performing balances	**5.5**		5.3	
Consumer banking				
Non-performing loans as % of total (excluding charged off balances)	**3.8**		3.6	
Total provisions as a % of non-performing loans (including charged off balances)	**88.4**		86.5	
Key ratios	**%**		%	
Capital				
Common Equity Tier 1 ratio (note iii)	**29.6**		25.4	
UK leverage ratio (note iv)	**4.9**		4.4	
CRR leverage ratio (note iii)	**4.6**		4.2	
Other balance sheet ratios				
Liquidity coverage ratio	**125.2**		124.0	
Wholesale funding ratio (note v)	**28.2**		27.1	

Notes:
i. Member deposits include current account credit balances.
ii. Net receipts include outflows of non-member deposits relating to the closure of off-shore operations in the Isle of Man and Republic of Ireland.
iii. Reported under CRD IV on an end point basis. The CRR leverage ratio is calculated using the Capital Requirements Regulation (CRR) definition of Tier 1 for the capital amount and the Delegated Act definition of the exposure measure.
iv. The UK leverage ratio is shown on the basis of measurement announced by the Prudential Regulation Authority and excludes eligible central bank reserves from the leverage exposure measure.
v. The wholesale funding ratio includes all balance sheet sources of funding (including securitisations) but excludes Funding for Lending Scheme (FLS) drawings which, as asset swaps, are not included on Nationwide's balance sheet, reflecting the substance of the arrangement. Off-balance sheet FLS drawings totalled £3.0 billion (4 April 2017: £4.8 billion).

Chief Executive's review

A strong and growing Society, well placed to support members in the challenging environment ahead

As a mutual, owned by our members, Nationwide is driven by a strong sense of social purpose, based on our history and founding principles. As we exist primarily for the benefit of our members, we organise ourselves around their needs, as we set out in our refreshed strategy at the start of the financial year. **Building society, nationwide** describes our aspirations to grow the Society in a sustainable way that benefits our members, customers, colleagues, and society more generally.

Underpinning our strategy are our five strategic cornerstones. These set out what we aim to do and how we will do it. First, we must be **built to last**: financially strong, profitable, prudent and efficient, so that we are here for our members in the long term. A healthy society is a growing society, which is reflected in our second cornerstone, **building thriving membership**; this is about growing our relationship with existing members, and attracting new ones. **Building legendary service** is our commitment to becoming known for industry-leading service within our industry but also outside it. **PRIDE** describes our culture and deeply-held mutual values, and guides our people to do the right thing in the right way. Finally, we aspire to be a '**national treasure**', one of the UK's most trusted and respected organisations, known for championing the interests of our members and society more generally.

We can only achieve all these aspirations by running a successful business, and I'm pleased to say our first half results demonstrated the strength of the Society.

Our underlying profit for the period was £588 million (H1 2016/17: £615 million). After excluding one-off gains from the sale of our interests in Visa and VocaLink[1], profits increased year on year. This reflected good trading in our core businesses as we maintain our low risk balance sheet.

This strong performance allowed us to reward members, putting £245 million in their pockets in member financial benefit (H1 2016/17: £250 million). Offering our members better rates, incentives and fees than the market[2] as a whole is one of the ways we deliver better value to members, which is what makes Nationwide, and our mutuality, distinctive.

We believe that mutuality, driven by social purpose as well as commercial needs, resonates today. In an era of declining trust in business, Nationwide remains at the top for most trusted financial brand[3] and first for customer satisfaction in our high street peer group with a lead of 2.7%[4].

This unique combination of leading value, trust and service is a compelling proposition and helped us attract 159,000 new members, leading to a record total membership of 15.4 million people. Our engaged members – those who do most business with us – also grew to a new high of 8.0 million, putting us well on track to reach our strategic target of 10 million engaged members by 2022.

Built to last: robust profits and enhanced financial strength

As a mutual, profit matters to us because it allows us to grow and invest in our business and deliver value to our members. Our statutory profit for the period was £628 million (H1 2016/17: £696 million) and on an underlying basis, profit was £588 million (H1 2016/17: £615 million) benefiting from a £26 million one-off gain from the VocaLink disposal (H1 2016/17: £100 million one-off gain from the Visa disposal). This strong profit performance is comfortably within our strategic target range of £0.9 to £1.3 billion annually.

We improved our capital strength, with our CET1 ratio increasing to 29.6% (4 April 2017: 25.4%), and improved our UK leverage ratio to 4.9% (4 April 2017: 4.4%), both well in excess of regulatory requirements. We are on course to meet our Minimum Requirements for Own Funds and Eligible Liabilities (MREL) in advance of the January 2020 target date. We enhanced our capital strength by issuing a second tranche of core capital deferred shares (CCDS), a form of CET1 capital specific to building societies. Our issuance both supported capacity and liquidity in the CCDS market, and raised £0.8 billion of capital.

Our net interest margin improved modestly to 1.34% (H1 2017/18: 1.33%) due to lower funding costs, which were partially offset by lower mortgage margins in a highly competitive market.

Our strong performance allowed us to continue to deliver incremental value to members, maintaining our member financial benefit of £245 million in the period (H1 2016/17: £250 million).

[1] H1 2017/18: £26m one-off gain from sale of investment in VocaLink (H1 2016/17: £100m one-off gain from the sale of investment in Visa Europe).
[2] Market average interest rates are based on Bank of England whole of market average interest rates adjusted to exclude Nationwide's balances.
[3] Source: Nationwide Brand and Advertising tracker - compiled by Independent Research Agency, based on all consumer responses, 3 months ending September 2017. Financial brands included Nationwide, Barclays, Co-operative Bank, First Direct, Halifax, HSBC, Lloyds, NatWest, TSB and Santander. Nationwide's lead on trust is not statistically significant and therefore positioned as joint top with Halifax.
[4] © GfK 2017, Financial Research Survey (FRS), 12 months ending 30 September 2017 vs 31 March 2017, proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across current account, mortgage and savings. High street peer group defined as providers with main current account market share >4% (Barclays, Halifax, HSBC, Lloyds Bank (inc C&G), NatWest, Santander and TSB).

Chief Executive's review (continued)

While costs have risen in recent years as we have made strategic investments in the Society, invested in our people and grown our business, we've worked hard to contain them. Our underlying cost income ratio of 59.0% (H1 2016/17: 57.1%) reduced from 60.2% for the year ended 4 April 2017. Our ongoing efficiency programme is delivering sustainable savings, and we're on track to deliver broadly flat costs for the full year, as we promised.

Building thriving membership: helping members into homes, to save and to manage their finances

Attracting a new generation of members while retaining the loyalty of our existing members is important for the long-term sustainability of the Society.

Mortgages: helping members onto or up the housing ladder
Our founding purpose – helping people into homes – is still the heart of our business. Although housing market activity remained subdued and competition intensified, prime mortgage gross lending of £15.0 billion was up 2% over the same period last year. At a time when many have difficulty getting on the property ladder, first time buyers remain a priority for us, and we helped a record 39,500 homebuyers into their first homes, 1 in 5 of all first time buyers (H1 2016/17: 38,600). Following our decision in 2016 to extend our borrowing in retirement options, we are launching a new Lifetime Mortgage that does not require repayments during the customer's lifetime. This is Nationwide's response to today's reality - that many older people have considerable wealth tied up in their property, which they can't – or can't afford to – access without moving home. Our Lifetime Mortgage will give members access to their capital in a flexible and affordable way.

We also want to remain the provider of choice for our existing members. 7 out of 10 members chose to renew their mortgage with Nationwide. In a more challenging environment for landlords, buy to let mortgages remain less attractive to borrowers. Buy to let lending in the period was in line with expectations, reflecting the highly competitive market and our decision to tighten our lending criteria in 2016, ahead of regulation and our competitors.

As 1 in 5 people now live in private rented accommodation, we want to help both tenants and landlords by using our influence to improve the standards of privately rented homes. We've introduced improved standards that landlords must meet in order to secure a mortgage with us. We've also launched the Nationwide Partnership Board, a cross-industry alliance, to monitor the health of the rental market, recommend solutions, and take action which delivers decent, affordable homes.

Savings: supporting savings members with above average rates[5]
We've heard strongly from savings members about the strain of a decade of low interest rates and, despite market pressures, we're committed to helping savers make the most of their money. We've maintained our average rates approximately 50% higher than the market average[5], putting a financial benefit in members' pockets of over £180 million in the period (H1 2016/17: £185 million). And while our deposit balances grew more slowly than last year, we maintained our market share at 10% largely through growth in current accounts.

With low rates a disincentive for people to save, over the first half of the year we continued to encourage our loyal members to keep saving by offering exclusive products with higher rates, such as Flexclusive Regular Saver, our Loyalty Bonds and FRISAs.

We were the first in the industry to respond to the recent base rate rise, passing on the full benefit to those members whose savings rates fell by 0.25% following the last base rate reduction in August 2016. This includes popular products such as our Loyalty Saver, Flexclusive ISA and children's products like Smart Junior ISA.

Leading current account attracts more net switchers than the major banks combined[6]
We offer very attractive current accounts, which drew in record new accounts for the seventh half year running. We opened 427,000 accounts, a 13% increase year on year, bringing our market share of main standard and packaged accounts to 7.7% (4 April 2017 7.5%). We were delighted to be the UK's top choice[7] for current accounts again and to be first choice for switchers once more, attracting more than three times as many net switchers as our nearest competitor through the Current Account Switching Service (CASS)[6].

Our stock share of youth and student accounts increased to 10.3% in the period (4 April 2017: 8.2%), with 76,300 FlexOne (H1 2016/17: 70,300) and 17,700 FlexStudent (H1 2016/17: 9,400) account openings.

We also extended our 'recommend a friend' scheme to allow mortgage and savings members to benefit from loyalty incentives from recommending our current account.

In the last two years, our total stock of current accounts has increased by 19%, to a record 7.1 million.

[5] Market average interest rates are based on Bank of England whole of market average interest rates adjusted to exclude Nationwide's balances.
[6] Source: Current Account Switch Service Dashboard, Issue 16 quarterly participant data, 3 months to March 2017.
[7] Source: Nationwide Brand and Advertising tracker - compiled by Independent Research Agency. 'Top choice' is most considered ie 'first choice' or 'seriously considered' current account provider amongst non-customers, based on responses from non-customers of each brand, 3 months ending September 2017. Financial brands included Nationwide, Barclays, Cooperative Bank, First Direct, Halifax, HSBC, Lloyds, NatWest, TSB and Santander.

Chief Executive's review (continued)

Building legendary service: digital convenience with a human touch

High quality service has been a hallmark of the Society for many years. We are pleased to still have the highest customer satisfaction in our high street peer group with an overall lead of 2.7% over our nearest competitor and 7.5% over the peer group average [8]. This is despite extending the group we measure ourselves against this year. Importantly we also have a lead of 9.7% on current account customer satisfaction[9]. Longer term, our aim is to be among the best for service outside our industry, as well as within it.

We continue to work hard to deserve our reputation for service by investing in delivering excellent service across all our channels – branch, digital, mobile and telephony.

Through our Member Connect panel we know members want a balance of convenient technology and human interaction. With active mobile users up 15.5% since 4 April 2017, we're continuing to rethink and reconfigure our branch network by rolling out a new design, with branches organised in four separate zones: Convenience, where we offer speedy service; Conversation, for help and advice; Consultation, with private space for discussions; and a Community space where members can have a coffee and a chat. The new design has already been rolled out to seven locations, with a further 30 planned before the middle of next year.

We have started to prepare for the advent of Open Banking in 2018. This will give customers the opportunity to ask their banking provider, including Nationwide, to share their current account balance, transaction history and payment data with other financial institutions, in a secure manner so that they can see their accounts across different organisations. The result should be greater visibility for the consumer, and more control of their finances. Nationwide has taken a leading role in developing the industry standards that will protect consumers, and we're exploring how we can use Open Banking to provide a better sales and service experience for members. IT resilience is one of our highest priorities and we continue to focus on protecting customer services and data, balancing understandable customer expectations for 'always on' digital services with the need for resilient and secure systems.

PRIDE: investing in our employees and values

Our 18,000 employees provide the high-quality service and care ethic that underpin our performance, which is why we place a high emphasis on being one of the best places to work in the UK. You can see this in our high employee engagement and enablement levels. Nationwide was named as a UK top three Outstanding Employer in Korn Ferry's 2017 employee engagement awards.

Our culture, which is summed up in our PRIDE values, has consistently driven an intense focus on our members, and the conduct we aspire to. Recently, 150 colleagues volunteered as PRIDE champions, to ensure we live our values and culture every day. In addition, a number of colleagues were chosen in a 'People's Choice' vote to join our leadership community and will take part in our *Leading for Mutual Good* programme for the Society's existing and future leaders.

Building a national treasure: building society, nationwide

We want to earn people's trust, help them understand our mutual difference and see that Nationwide makes a positive impact on people's lives. Among consumers, we remain at the top for trust and fair financial brands[10].

As a business with a social purpose at its heart, sharing the rewards of our success with society more generally is an important part of what we do. We have launched a new five-year social investment programme aimed at helping people find a place fit to call home. We expect to invest some £20 million over five years to help local communities solve their housing issues, with local members voting to choose which projects we will support. The programme is being piloted in the second half of 2017, before going nationwide in 2018.

Outlook: financial strength and strong trading allows us to support members in challenging times

Turning to the outlook. A number of financial factors are weighing on the economy and our members. On the one hand, employment is at or close to historic highs. On the other, uncertainty appears to be holding back investment, wages are shrinking in real terms, and inflation has ticked up to its highest level in five years. Annual house price growth has moderated to 2-4% in recent months. And of course, uncertainty about Brexit continues.

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[8] © GfK 2017, Financial Research Survey (FRS), 12 month rolling data from April 2012 to September 2017, proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across current account, mortgage and savings. High street peer group defined as providers with main current account market share >4% (Barclays, Halifax, HSBC, Lloyds Bank (inc C&G), NatWest, Santander and TSB). Prior to April 2017, high street peer group defined as providers with main current account market share >6% (Barclays, Halifax, HSBC, Lloyds Bank (inc C&G), NatWest and Santander). Prior to April 2015, Lloyds Bank and TSB combined as Lloyds TSB Group (including Lloyds Bank, TSB and C&G).
[9] © GfK 2017, Financial Research Survey (FRS), 12 months ending 30 September 2017, proportion of extremely/very satisfied main current account customers minus proportion of extremely/very/fairly dissatisfied main current account customers. High street peer group defined as providers with main current account market share >4% (Barclays, Halifax, HSBC, Lloyds Bank (inc C&G), NatWest, Santander and TSB).
[10] Source: Nationwide Brand and Advertising tracker - compiled by Independent Research Agency, based on all consumer responses, 3 months ending September 2017. Financial brands included Nationwide, Barclays, Co-operative Bank, First Direct, Halifax, HSBC, Lloyds, NatWest, TSB and Santander. Nationwide's lead on trust is not statistically significant and therefore positioned as joint top with Halifax.

Chief Executive's review (continued)

Overall, however, we expect the economy to grow in the quarters ahead. While the pace of expansion is likely to remain sluggish in the near term, our central expectation is that it will accelerate in the years ahead, once Brexit uncertainties recede and the squeeze on incomes reduces. We expect the housing market to mirror trends in the wider economy.

This mixed economic picture means that it is vital we continue to support our members, providing them with the appropriate products and services to manage their financial lives.

In the housing market, with interest rates still at historic lows, November's rate rise should only have a modest impact on most households. Further interest rate rises are likely to be gradual and, providing employment remains buoyant, mortgages will remain affordable. There are, however, some signs of a squeeze on household finances from low wage growth and above-target inflation. Our member panel tells us people are beginning to cut back, particularly on savings and discretionary expenditure, which is not surprising when real incomes are falling.

Competition in the mortgage market remains intense, and shows no sign of abating. Although mortgage volumes remain strong, we're prepared for the possibility that intense competition combined with declining consumer confidence may lead to a moderation in gross lending and market share in the second half of the year.

The launch of Open Banking in 2018 will also bring new competitive challenges and opportunities for a growing Society like Nationwide. We will meet any pressures by being more efficient - we're already on track to deliver broadly flat costs for the full year - and by continuing to attract new members with our distinctive combination of excellent value, leading service, and social purpose.

Nationwide is in very good shape after another strong set of results. The second half may bring tougher trading conditions, but we remain well placed to stand by our members in these uncertain times. Nationwide is financially secure and will continue to promote the long-term interests of both the Society and our members.

Financial review

Overall performance

Our financial performance for the period ended 30 September 2017 was in line with expectations. Statutory profit before tax was £628 million (H1 2016/17: £696 million) and includes £36 million (H1 2016/17: £77 million) of derivative and hedge accounting gains. Underlying profit before tax was £588 million (H1 2016/17: £615 million). Profits in the prior period benefited from a one-off gain of £100 million from the sale of our investment in Visa Europe; the current period profits included a gain of £26 million from the sale of our investment in VocaLink.

Our underlying cost income ratio was 59.0% (H1 2016/17: 57.1%), reflecting increased costs and broadly unchanged total income. The rise in costs is primarily due to higher defined benefit pension costs and an increase in depreciation. We remain committed to a lower trajectory of cost growth in the future and, compared to the same period last year, cost growth has slowed to 3% (H1 2016/17: 9% growth). We anticipate full year costs will be broadly flat year on year, in line with the expectations communicated in our 2016/17 financial results.

Impairment losses on loans and advances to customers have increased by £27 million to £59 million (H1 2016/17: £32 million), reflecting a rate of incurred losses which is in line with the full year performance for 2016/17. The increase in impairments is driven by updates to our provision assumptions to reflect the current economic environment. Delinquency levels remain low across all our portfolios.

A £6 billion growth in total assets to £228 billion has been driven mainly by a £4 billion growth in residential mortgage balances to £175 billion, reflecting strong trading in the period. The remaining asset growth reflects an increase in high quality liquid assets from on-balance sheet Term Funding Scheme (TFS) drawdowns (replacing off-balance sheet Funding for Lending Scheme (FLS) liquidity) and from cash received in relation to the Society's recent core capital deferred shares (CCDS) issuance.

Our capital levels have improved during the period with CET1 and UK leverage ratios of 29.6% and 4.9% respectively (4 April 2017: 25.4% and 4.4%) comfortably in excess of current regulatory requirements. The recent CCDS issuance improved our CET1 and UK leverage ratios by 2.4 percentage points and 0.4 percentage points respectively.

During the period, competition in the mortgage market has intensified and the savings market has experienced increased competition from challenger banks, alongside slower market growth. We anticipate these conditions will continue, resulting in the moderation of trading volumes during the remainder of the current financial year. Notwithstanding this, our financial strength and high quality balance sheet mean that we are well placed to deliver long term value to our members.

Income statement

Underlying and statutory results	**Half year to 30 September 2017 £m**	Half year to 30 September 2016 £m
Net interest income	1,514	1,449
Net other income	125	193
Total underlying income	**1,639**	1,642
Underlying administrative expenses	(967)	(938)
Impairment losses	(59)	(37)
Underlying provisions for liabilities and charges	(25)	(52)
Underlying profit before tax (note i)	**588**	615
Bank levy (note ii)	1	-
Financial Services Compensation Scheme (FSCS) (note ii)	3	4
Gains from derivatives and hedge accounting (notes ii and iii)	36	77
Statutory profit before tax	**628**	696
Taxation	(157)	(194)
Profit after tax	**471**	502

Notes:

i. Underlying profit represents management's view of underlying performance and is presented to aid comparability across reporting periods.

ii. Within the statutory results presented in the financial statements:
   a. bank levy is included within administrative expenses
   b. FSCS costs are included within provisions for liabilities and charges
   c. gains from derivatives and hedge accounting are presented separately within total income.

iii. Although we only use derivatives to hedge market risks, income statement volatility can still arise due to hedge accounting ineffectiveness or because hedge accounting is either not currently applied or is not currently achievable. This volatility is largely attributable to accounting rules which do not fully reflect the economic reality of the hedging strategy.

Financial review (continued)

Total income and margin	Half year to 30 September 2017 £m	Half year to 30 September 2016 £m
Net interest income	1,514	1,449
Net other income	125	193
Total underlying income	**1,639**	1,642
Gains from derivatives and hedge accounting	36	77
Total statutory income	**1,675**	1,719
Weighted average total assets	228,263	220,364
Net interest margin (NIM) %	**1.34**	1.33

Net interest income has increased 4% during the period to £1,514 million (H1 2016/17: £1,449 million), benefiting from lower funding costs. NIM of 1.34% is largely consistent with the same period last year (H1 2016/17: 1.33%).

Savings rates across the industry continued to fall during the first half of the year. Whilst we reduced the rates paid to our members on some of our savings products, our savings range remained competitively positioned in the market and continues to reflect our mutual principle of providing products that represent good long term value to our members. Over the last six months our depositors have benefited from average rates approximately 50% higher than the average market rate[1]. In anticipation of the base rate increase in November, we committed to increase rates on products impacted by the previous reductions.

The benefit to NIM from lower funding costs has been offset by a decrease in mortgage margins. Competition in retail lending markets remains intense and has resulted in more borrowers switching to competitively priced products. Our legacy base mortgage rate (BMR) balances, at £26.3 billion, have progressively declined period on period (4 April 2017: £29.1 billion) in line with both recent experience and our expectations. We are planning for market conditions to remain highly competitive, and the run-off of BMR balances to continue, and consequently we expect our reported margin to trend lower during the second half of the year and into 2018/19.

Other income has decreased during the period to £125 million (H1 2016/17: £193 million) predominantly due to the prior period impact of a one-off gain of £100 million from the sale of our investment in Visa Europe. This is offset in part by a current period gain of £26 million from the sale of our investment in VocaLink.

Administrative expenses	Half year to 30 September 2017 £m	Half year to 30 September 2016 £m
Employee costs	407	388
Other administrative expenses	368	375
Depreciation, amortisation and impairment	192	175
Total underlying administrative expenses	**967**	938
Bank Levy expense/(reversal)	(1)	-
Total statutory administrative expenses	**966**	938
	%	%
Cost income ratio – underlying basis	59.0	57.1
Cost income ratio – statutory basis	57.7	54.6

Underlying administrative expenses increased by 3%, driven by higher defined benefit pension costs as a result of market conditions, and the depreciation impact of previous investment in our infrastructure to enhance products and services. The remainder of our cost base was essentially unchanged compared with a year ago despite volume growth and the impact of inflation. The underlying cost income ratio of 59.0% (H1 2016/17: 57.1%) is down from 60.2% for the full year 2016/17.

To support the long-term interests of our members, we continue to invest in our products, service and resilience. During the period, investment spend has focused on improvements to our branches, continued updates to our digital channels and preparation for Open Banking. We have also invested in IT resilience and ensuring compliance with UK and EU regulatory requirements.

[1] Market average interest rates are based on Bank of England whole of market average interest rates adjusted to exclude Nationwide's balances.

Financial review (continued)

We have continued our focus on operational efficiency, whilst ensuring the needs of our members are prioritised. We have made good progress with our efficiency programme, which targets £300 million of sustainable cost savings by 2022. Cost growth in the first half of the year slowed to 3% compared with 9% in the same period last year, and we have invested £15 million in the period in improving longer-term efficiency. This has included redesign of member processes, organisational simplification and improvements to the way we deliver change. Our efficiency programme is a key priority and we remain committed to a lower trajectory of cost growth in the future and a broadly flat cost position for the current year compared with 2016/17.

Impairment losses	Half year to 30 September 2017 £m	Half year to 30 September 2016 £m
Residential lending	12	5
Consumer banking	52	32
Retail lending	**64**	37
Commercial lending	(5)	(5)
Impairment losses on loans and advances to customers	**59**	32
Impairment losses on investment securities	-	5
Total	**59**	37

Impairment losses have increased by £22 million to £59 million (H1 2016/17: £37 million) but reflect a rate of incurred losses in line with the full year performance for 2016/17. The increase is driven mainly by additional consumer banking impairments from updating provision assumptions to reflect current economic conditions. Although loans continue to perform and delinquency levels have remained low across all portfolios during the period, there are emerging indications that affordability is under more pressure from the impact of inflation.

Further details on asset quality are included in the Business and risk report.

Provisions for liabilities and charges	Half year to 30 September 2017 £m	Half year to 30 September 2016 £m
Underlying provisions for liabilities and charges – Customer redress	**25**	52
FSCS levy (release)	(3)	(4)
Total statutory provisions for liabilities and charges	**22**	48

We hold provisions for customer redress to cover the costs of remediation and redress in relation to past sales of financial products and post sales administration, including compliance with consumer credit legislation and other regulatory requirements. The charge for the period primarily relates to customer redress provisions recognised in respect of PPI and Plevin, including the cost of administering these claims.

The income statement charge for the half year mainly reflects updated assumptions for provisions previously recognised. This includes a £28 million charge in relation to PPI, driven by an increase in the anticipated number of future complaints we expect to receive ahead of the Financial Conduct Authority's August 2019 deadline.

More information on customer redress and FSCS provisions is included in note 16.

Taxation

The tax charge for the period of £157 million (H1 2016/17: £194 million) represents an effective tax rate of 25% (H1 2016/17: 27.9%) which is higher than the statutory UK corporation tax rate of 19% (H1 2016/17: 20%). The effective tax rate is higher due to the 8% banking surcharge, equivalent to £33 million (H1 2016/17: £40 million), and the tax effect of disallowable customer redress costs and other disallowable expenses of £1 million and £4 million (H1 2016/17: £7 million and £7 million) respectively. Further information is provided in note 9.

Financial review (continued)

Member financial benefit

As a building society, we seek to maintain our financial strength whilst returning value to our members through pricing and service. We provide value to our members through the highly competitive mortgage, savings and banking products we can offer as a direct result of being a member-owned business. The calculation method used to quantify our member financial benefit is described in full in the Financial review section of the Annual Report and Accounts 2017. In summary, we quantify the financial benefit of being a member by comparing the following to industry benchmarks:

- our interest rate pricing on prime mortgages, unsecured lending and retail deposits; and
- the lower fees we charge and higher incentives we provide to our members.

For the period ended 30 September 2017, this measure shows we have provided our members with a financial benefit of £245 million (H1 2016/17: £250 million). This reflects our ongoing commitment to delivering long-term value to our members despite strong levels of competition in our core markets.

Balance sheet

Total assets have increased to £228 billion at 30 September 2017 (4 April 2017: £222 billion) with a strong trading performance driving £4.1 billion of net prime mortgage lending (H1 2016/17: £5.0 billion). The remainder of the balance sheet growth largely reflects an increase in high quality liquid assets.

Mortgage lending has been partially funded by growth in retail deposits, with member deposits increasing by £1.8 billion to £146.4 billion (4 April 2017 £144.5 billion). The growth in member balances is primarily attributable to increased current account balances as we focus on growing our base of engaged members. This includes growth from existing account holders, as well as 427,000 new current accounts opened during the period (H1 2016/17: 377,000). In a highly competitive market, our market share of UK household deposits remained stable at 10.0% at 30 September 2017 (4 April 2017: 10.1%).

Assets	**30 September 2017**		4 April 2017	
	£m	**%**	£m	%
Residential mortgages	**175,262**	*92*	171,263	*91*
Commercial lending	**11,772**	*6*	12,580	*7*
Consumer banking	**4,011**	*2*	3,949	*2*
Other lending	**76**	-	17	-
	191,121	*100*	187,809	*100*
Impairment provisions	**(455)**		(438)	
Loans and advances to customers	**190,666**		187,371	
Other financial assets	**34,397**		31,231	
Other non-financial assets	**2,465**		3,068	
Total assets	**227,528**		221,670	
Asset quality				
Residential mortgages:	**%**		%	
Proportion of residential mortgage accounts 3 months+ in arrears	**0.44**		0.45	
Average indexed loan to value of residential mortgage book (by value)	**55**		55	
Impairment provisions as a percentage of non-performing balances	**5.5**		5.3	
Consumer banking:				
Non-performing loans as percentage of total balances (excluding charged off balances) (note i)	**3.8**		3.6	
Impairment provisions as a percentage of non-performing balances (including charged off balances) (note i)	**88.4**		86.5	
Liquidity coverage ratio	**125.2**		124.0	

Note:

i. Charged off balances relate to accounts which are closed to future transactions and are held on the balance sheet for an extended period (up to 36 months, depending on the product) whilst recovery procedures take place.

Financial review (continued)

Residential mortgages

Residential mortgages include prime and specialist loans, with the specialist portfolio primarily comprising buy to let (BTL) lending. Gross mortgage lending in the period reduced by £0.8 billion to £16.7 billion (H1 2016/17: £17.5 billion), representing a market share of 12.9% for the period (H1 2016/17: 14.5%). Gross prime mortgage lending remained strong at £15.0 billion (H1 2016/17: £14.7 billion). Following the affordability criteria changes we made last year, and the impacts of the stamp duty increase on the BTL market, gross BTL mortgage lending for the period reduced to £1.7 billion (H1 2016/17: £2.8 billion).

Net mortgage lending has decreased during the period by £2.1 billion to £3.9 billion (H1 2016/17: £6.0 billion), reflecting the reduction in BTL advances and increased prime mortgage redemptions due to ongoing market competition. Net lending for the period includes £4.1 billion of prime lending (H1 2016/17: £5.0 billion). Given the sustained levels of competition in the prime mortgage market, and the slowdown in BTL volumes, we expect net lending to moderate in the period ahead.

The average loan to value (LTV) of our portfolio, weighted by value, was unchanged at 55% (4 April 2017: 55%). The average LTV of new lending in the period also remained unchanged at 71% (4 April 2017: 71%), reflecting our continued support of the first time buyer market as we recognise the importance of helping people take their initial steps onto the housing ladder.

The impairment provision balance has increased to £150 million (4 April 2017: £144 million) due to updated provision assumptions to reflect current economic conditions. The impact of these conditions has not yet been evident in arrears performance, which improved marginally, with cases more than three months in arrears improving slightly to 0.44% (4 April 2017: 0.45%).

Commercial lending

Total commercial lending balances were £11.8 billion (4 April 2017: £12.6 billion) and, given deleveraging activity undertaken in recent years, our overall portfolio is increasingly weighted towards registered social landlords, with balances of £7.4 billion (4 April 2017: £7.5 billion). The registered social landlords' portfolio is fully performing, reflecting its low risk nature.

The strategy for the commercial lending portfolio continues to be to hold and actively manage to maturity in line with contractual terms. During the period the commercial real estate (CRE) balances decreased by £0.4 billion to £2.2 billion (4 April 2017: £2.6 billion).

Consumer banking

Consumer banking comprises personal loans of £2.0 billion (4 April 2017: £2.0 billion), credit cards of £1.8 billion (4 April 2017: £1.7 billion) and current account overdrafts of £0.2 billion (4 April 2017: £0.2 billion). Delinquency levels in the portfolio remain low, benefiting from prudent lending criteria, proactive risk management practices and continued low interest rates.

Impairment provisions have increased to £282 million (4 April 2017: £269 million), primarily due to updated provision assumptions to reflect current economic conditions.

Further details of our lending are provided in the 'Lending risk' section of the Business and risk report.

Other financial assets

Other financial assets of £34.4 billion (4 April 2017: £31.2 billion) comprise liquidity and investment assets held by our Treasury function of £29.1 billion (4 April 2017: £25.4 billion), derivatives with positive fair values of £5.1 billion (4 April 2017: £5.0 billion) and fair value adjustments and other assets of £0.2 billion (4 April 2017: £0.8 billion). Derivatives are primarily interest rate and foreign exchange derivatives which economically hedge financial risks inherent in our core lending and funding activities.

Growth in the levels of on-balance sheet liquid assets is predominantly due to the replacement of off-balance sheet FLS liquidity with on-balance sheet TFS drawdowns, additional cash from the recent issuance of CCDS and an increase in held to maturity investment securities. Although total on-balance sheet liquidity has increased, our Liquidity Coverage Ratio (LCR) has remained broadly stable at 125.2% (4 April 2017: 124.0%) due to certain assets not being eligible for the LCR calculation, and changes to LCR requirements.

Financial review (continued)

Members' interests, equity and liabilities	30 September 2017 £m	4 April 2017 £m
Member deposits	146,384	144,542
Debt securities in issue	40,491	40,339
Other financial liabilities	26,562	23,940
Other liabilities	1,804	1,716
Total liabilities	215,241	210,537
Members' interests and equity	12,287	11,133
Total members' interests, equity and liabilities	227,528	221,670
	%	%
Wholesale funding ratio (note i)	28.2	27.1

Note:
i. The wholesale funding ratio includes all balance sheet sources of funding (including securitisations) but excludes Funding for Lending Scheme (FLS) drawings which, as an asset swap, are not included on Nationwide's balance sheet, reflecting the substance of the arrangement. Off-balance sheet FLS drawings have reduced during the period to £3.0 billion (4 April 2017: £4.8 billion).

Member deposits

Member deposits have increased by £1.8 billion to £146.4 billion (4 April 2017: £144.5 billion). This includes current account credit balances, which have increased to £19.8 billion (4 April 2017: £17.5 billion).

Our market share of all UK household deposits at 30 September 2017 was 10.0% (4 April 2017: 10.1%).

Debt securities in issue

Debt securities in issue of £40.5 billion (4 April 2017: £40.3 billion) are used to raise funding in wholesale markets to finance our core activities. The wholesale funding ratio has increased to 28.2% (4 April 2017: 27.1%), reflecting wholesale issuance activity, as well as the drawdown of TFS.

Other financial liabilities

Other financial liabilities have increased during the period to £26.6 billion (4 April 2017: £23.9 billion) driven by an increase in bank deposits (which includes TFS drawdowns). This growth has been partly offset by a decrease in Nationwide International balances which have now fully run off. Following our strategic decision to exit the business, the outflow of Nationwide International balances was managed in an orderly manner, with the funding replaced by additional member deposits and the use of wholesale funding where appropriate.

Members' interests and equity

Movements in the period reflect the retained profit after tax and the issuance of CCDS during the period, details of which are included in the Capital structure section on the next page.

Statement of comprehensive income	Half year to 30 September 2017 £m	Half year to 30 September 2016 £m
Profit after tax	471	502
Net remeasurement of pension obligations	71	(405)
Net movement in cash flow hedge reserve	(114)	310
Net movement in available for sale reserve	(15)	(12)
Other items	-	3
Total comprehensive income	413	398

Movements in the table above are shown net of related taxation.

The net remeasurement of pension obligations of £71 million income (H1 2016/17: £405 million expense) mainly reflects £226 million of actuarial gains (H1 2016/17: £1,359 million actuarial losses). This is partly offset by a £129 million loss resulting from pension asset returns being lower than the rate used to discount future cashflows in calculating the pension obligation (H1 2016/17: £807 million gain). Further information on gross movements in the pension obligation is included in note 18.

The net movement in cash flow hedge reserve of £114 million expense (H1 2016/17: £310 million income) is driven by changes in derivative valuations from movements in foreign exchange rates and interest rates. Further information is included in note 6.

Financial review (continued)

Capital structure

Capital structure	30 September 2017 £m	4 April 2017 £m
Capital resources (note i)		
Common Equity Tier 1 (CET1) capital	9,758	8,555
Total Tier 1 capital	10,750	9,547
Total regulatory capital	14,104	12,129
Risk weighted assets (RWAs)	32,999	33,641
UK leverage exposure	220,614	215,894
CRR leverage exposure	236,002	228,428
CRD IV capital ratios:	%	%
CET1 ratio	29.6	25.4
UK leverage ratio (note ii)	4.9	4.4
CRR leverage ratio (note iii)	4.6	4.2

Notes:
i. Data in the table is reported under CRD IV on an end point basis.
ii. The UK leverage ratio is shown on the basis of measurement announced by the Prudential Regulation Authority (PRA) and excludes eligible central bank reserves from the leverage exposure measure.
iii. The Capital Requirements Regulation (CRR) leverage ratio is calculated using the CRR definition of Tier 1 for the capital amount and the Delegated Act definition of the exposure measure and is reported on an end point basis.

In September 2017, the Society issued an additional five million of £1 CCDS, as part of our strategy to maintain broad access to capital markets. This issuance supports the continued relevance of this instrument in the context of our strategic capital management and enhances its liquidity. Issuing from a position of strength, we remain well in excess of regulatory capital requirements. These CCDS form a single series together with the CCDS previously issued in December 2013. Further information on CCDS can be found in note 19. Detailed information on the key features of CCDS and other capital instruments can be found within the Interim Pillar 3 Disclosure 2017 at **nationwide.co.uk**

CET1 capital resources have increased over the period by £1.2 billion mainly due to the CCDS issuance, which raised £0.8 billion of CET1 capital, and profit after tax for the period of £471 million. Risk weighted assets (RWAs) reduced over the period by £0.6 billion primarily due to the continued run-off of the commercial book.

The movements described above have resulted in an increase in the CET1 ratio to 29.6% (4 April 2017: 25.4%).

The UK leverage ratio was 4.9% at 30 September 2017 (4 April 2017: 4.4%). The increase was a result of the CCDS issuance and profits for the period. The CRR leverage ratio also increased to 4.6% (4 April 2017: 4.2%).

We continue to monitor regulatory developments that could lead to an increased level of capital requirements. Whilst there are a number of areas where potential requirements are yet to be finalised, regulatory announcements on the UK leverage ratio mean that we have a clearer understanding of the expected impact on our capital requirement. However, we will remain engaged in the development of the regulatory approach to ensure we are prepared for any changes. Whilst further amendments may result in significant increases to RWAs, we do not believe these will lead to a material increase in our overall capital requirements.

Further details of the capital position are included in the 'Solvency risk' section of the Business and risk report.

Business and risk report

Contents

Introduction

The Interim Business and risk report provides information on developments during the period in relation to the Group's business, the risks it is exposed to and how it manages those risks. Where there has been no change to the Group's approach to managing its risks, or there has been no material change to the relevant risk environment from that disclosed at year end, then this information has not been repeated in the 2017/18 Interim Results and can be found in the Business and risk report in the Annual Report and Accounts 2017.

Principal risks

Whilst it is accepted that all business activities involve some degree of risk, Nationwide seeks to protect its members by appropriately managing the risks that arise from its activities. The principal types of risk inherent within the business remain unchanged from those set out in the Business and risk report in the Annual Report and Accounts 2017, namely:

- Lending risk
- Financial risk
- Operational risk
- Conduct and compliance risk
- Strategic risk.

Top and emerging risks

Nationwide's top and emerging risks to the delivery of the strategy are identified through the process outlined in the Business and risk report section of the Annual Report and Accounts 2017. These risks are kept under close observation through the risk reporting and governance structure.

Nationwide's top and emerging risks continue to relate to three key themes:

- Macroeconomic and competitive environment
- Cyber security, data protection and operational resilience
- The pace of change in the digital and regulatory environment.

The latest developments in relation to the Group's top and emerging risks are set out below.

Macroeconomic and competitive environment

Nationwide continues to regularly monitor economic factors, including undertaking regular assessments of how economic stresses may impact its business model. Factors including the UK vote to leave the EU, geopolitical tensions, and European and domestic political changes are regularly discussed. While Nationwide's business model means it has limited direct exposure to the EU, should the UK leave the EU without a transitional deal in place, Nationwide could be exposed to secondary impacts.

Whilst the Bank of England has raised the base rate, interest rates remain at a historically low level. The Board continues to monitor closely and discuss the impact of any change in interest rates, competitor activity, and associated risks to economic growth and our margin.

In addition, the Board continues to balance carefully affordability with credit supply to support members, and actively monitors key indicators for any effect on credit losses or customer outcomes driven by the growth in the levels of UK household debt, or customer affordability resulting from wages not keeping pace with inflation.

Cyber security, data protection and operational resilience

Nationwide continues to focus on protecting customer services and data, balancing customer expectations for "always on" digital services with the need to provide compliant, resilient and secure systems.

Recent high profile attacks, such as WannaCry and NotPetya ransomware attacks, have not directly affected Nationwide, but emphasise the need for continued vigilance to ensure systems remain resilient and customers are protected from any future attacks.

Top and emerging risks (continued)

The pace of change in the digital and regulatory environment

Nationwide recognises both the risks and opportunities associated with changes that could impact the structure of the market, such as challenges from new competition as a result of Open Banking, artificial intelligence and automation, as well as broader changes to the external environment including climate change and the UK's aging population. Nationwide's stress testing activities consider a number of these to ensure the associated risks are understood and potential management responses have been identified.

Lending risk

Lending risk is the risk that a borrower or counterparty fails to pay interest or to repay the principal on a loan or other financial instrument (such as a bond) on time. Lending risk also encompasses extension risk and concentration risk. Further details on how Nationwide manages lending risk are available in the Annual Report and Accounts 2017. The table below summarises the Group's assets subject to lending risk.

Balances subject to lending risk	**30 September 2017**			
	Gross balances	**Less: impairment provisions**	**Carrying value**	**% of total**
	£m	**£m**	**£m**	**%**
Cash	**15,302**	**-**	**15,302**	**7**
Loans and advances to banks	**3,009**	**-**	**3,009**	**1**
Investment securities	**10,788**	**-**	**10,788**	**5**
Derivative financial instruments	**5,066**	**-**	**5,066**	**2**
Fair value adjustment for portfolio hedged risk (note i)	**191**	**-**	**191**	**-**
Investments in equity shares	**41**	**-**	**41**	**-**
	34,397	**-**	**34,397**	**15**
Loans and advances to customers:				
Residential mortgages	**175,262**	**(150)**	**175,112**	**78**
Consumer banking	**4,011**	**(282)**	**3,729**	**2**
Commercial lending (note i)	**11,772**	**(23)**	**11,749**	**5**
Other lending (note ii)	**76**	**-**	**76**	**-**
	191,121	**(455)**	**190,666**	**85**
Total	**225,518**	**(455)**	**225,063**	**100**

Balances subject to lending risk	4 April 2017			
	Gross balances	Less: impairment provisions	Carrying value	% of total
	£m	£m	£m	%
Cash	13,017	-	13,017	6
Loans and advances to banks	2,587	-	2,587	1
Investment securities	9,764	-	9,764	5
Derivative financial instruments	5,043	-	5,043	2
Fair value adjustment for portfolio hedged risk (note i)	746	-	746	-
Investments in equity shares	67	-	67	-
	31,224	-	31,224	14
Loans and advances to customers:				
Residential mortgages	171,263	(144)	171,119	78
Consumer banking	3,949	(269)	3,680	2
Commercial lending (note i)	12,580	(25)	12,555	6
Other lending (note ii)	17	-	17	-
	187,809	(438)	187,371	86
Total	219,033	(438)	218,595	100

Notes:

i. The fair value adjustment for portfolio hedged risk and the fair value adjustment for micro hedged risk (included within the carrying value of the commercial lending portfolio) represent hedge accounting adjustments. They are indirectly exposed to lending risk through the relationship with the underlying loans covered by Nationwide's hedging programmes.

ii. The other lending portfolio includes deferred consideration relating an investment in Visa Inc and collateral balances to support repo transactions.

Lending risk - Residential mortgages

Nationwide's residential mortgages include both prime and specialist loans. Prime residential mortgages are mainly Nationwide branded advances made through the branch network and intermediary channels. Specialist lending primarily consists of buy to let mortgages originated under The Mortgage Works (UK) plc (TMW) brand, but also includes other specialist lending which is now closed to new business.

New lending in the prime portfolio has seen the residential mortgage exposure grow from £171 billion to £175 billion over the period. This has mainly been driven by continued support for first time buyers and reflects Nationwide's commitment to help people become homeowners.

Over the period the geographical distribution across the UK has remained stable and the average LTV, weighted by value, has remained at 55%. Support for first time buyers has seen the proportion of new lending made to this segment increase to 37% (H1 2016/17: 35%). Average LTV of new lending is unchanged at 71% and the proportion of the portfolio with an LTV above 80% fell to 9.5% (4 April 2017: 9.6%).

The proportion of lending made to the buy to let segment has reduced over the period to 10% (H1 2016/17: 16%). In May 2017 Nationwide reintroduced a 125% Interest Cover Ratio (ICR) mortgage for basic rate taxpayers to recognise the lower impact the phased changes to income tax relief for buy to let investors will have on these borrowers.

Arrears levels remain low across prime and specialist lending, reflecting the favourable economic conditions, the low interest rate environment and robust lending controls. The proportion of loans more than three months in arrears reduced to 0.44% (4 April 2017: 0.45%), significantly below the Council of Mortgage Lenders (CML) average of 0.86%. With the immediate outlook for the UK less certain and the buy to let market facing increased costs, the expectation is for a very gradual rise in arrears from these low levels.

The proportion of non-performing loans reduced to 1.5% of the total mortgage portfolio. Provisions for impairment remain broadly stable.

Lending and new business

The table below summarises the residential mortgage portfolios:

Residential mortgage lending	30 September 2017		4 April 2017	
	£m	%	£m	%
Prime	**142,138**	**81**	138,004	81
Specialist:				
Buy to let	**30,139**	**18**	30,087	18
Self-certified	**1,942**	**1**	2,071	1
Near prime	**742**	**-**	784	-
Sub prime	**301**	**-**	317	-
	33,124	**19**	33,259	19
Total residential mortgages	**175,262**	**100**	171,263	100

Note:
Self-certified, near prime and sub prime lending were discontinued in 2009.

Lending risk – Residential mortgages (continued)

Distribution of new business by borrower type (by value)	Half year to 30 September 2017 %	Half year to 30 September 2016 %
Prime:		
First time buyers	37	35
Home movers	31	30
Remortgagers	21	18
Other	1	1
Total prime	90	84
Specialist:		
Buy to let new purchases	2	4
Buy to let remortgagers	8	12
Total specialist	10	16
Total new business	100	100

Note:
All new business measures exclude existing customers who are only switching products and/or taking further advances.

The proportion of prime remortgage lending increased during the period reflecting an increased customer appetite for remortgaging.

The proportion of lending to buy to let investors reduced during the period. Influencing factors include a contraction in the buy to let market following the introduction of further stamp duty charges for additional property purchases, and Nationwide taking a lead in the market by increasing its minimum interest cover ratio requirement in anticipation of the effect phased tax rises will have on affordability for some property investors.

Lending risk

Residential mortgage lending continues to have a low risk profile as demonstrated by a low level of arrears compared to the industry average. The residential mortgages portfolio comprises many relatively small loans which are broadly homogenous, have low volatility of credit risk outcomes and are diversified in terms of the UK market and geographic segments.

LTV and lending risk concentration

Average LTV shown below is calculated by weighting by value as this is considered to reflect most appropriately the exposure at risk.

Average LTV of loan stock (by value)	30 September 2017 %	4 April 2017 %
Prime	54	54
Specialist	58	59
Total	55	55

Average LTV of new business (by value)	Half year to 30 September 2017 %	Half year to 30 September 2016 %
Prime	72	72
Specialist (buy to let)	61	63
Total	71	71

Note:
The LTV of new business excludes further advances and product switchers.

The average LTV of buy to let new lending reduced by two percentage points in the period. This is due in part to the introduction of a reduced maximum LTV of 75% in May 2016 (previously 80%).

Lending risk – Residential mortgages (continued)

LTV distribution of new business (by value)	Half year to 30 September 2017 %	Half year to 30 September 2016 %
0% to 60%	27	25
60% to 75%	31	32
75% to 80%	8	9
80% to 85%	13	14
85% to 90%	17	16
90% to 95%	4	4
Total	100	100

The maximum LTV for new prime residential customers is 95%. The proportion of new lending below 60% increased, in part as a consequence of an increased customer appetite for remortgaging.

Geographical concentration

Residential mortgage balances by LTV and region 30 September 2017	Greater London £m	Central England £m	Northern England £m	South East England £m	South West England £m	Scotland £m	Wales £m	Northern Ireland £m	Total £m	%
Performing loans										
Fully collateralised										
LTV ratio:										
Up to 50%	27,812	10,511	6,818	9,051	5,980	3,019	1,360	893	65,444	
50% to 60%	11,771	6,106	4,040	4,683	3,355	1,694	767	381	32,797	
60% to 70%	8,916	6,882	6,098	3,671	3,335	2,516	1,222	398	33,038	
70% to 80%	5,877	4,734	5,513	2,511	2,226	2,472	1,137	380	24,850	
80% to 90%	3,952	2,230	3,246	1,556	1,212	1,259	652	302	14,409	
90% to 100%	465	200	492	173	95	133	71	105	1,734	
	58,793	30,663	26,207	21,645	16,203	11,093	5,209	2,459	172,272	98.4
Not fully collateralised										
Over 100% LTV (A)	4	4	25	2	2	12	2	199	250	0.1
Collateral value on A	*3*	*4*	*21*	*2*	*2*	*11*	*2*	*167*	*212*	
Negative equity on A	*1*	*-*	*4*	*-*	*-*	*1*	*-*	*32*	*38*	
Total performing loans	58,797	30,667	26,232	21,647	16,205	11,105	5,211	2,658	172,522	98.5
Non-performing loans										
Fully collateralised										
LTV ratio:										
Up to 50%	494	165	110	127	69	39	21	27	1,052	
50% to 60%	200	107	78	69	47	30	16	11	558	
60% to 70%	75	111	120	59	56	42	23	11	497	
70% to 80%	24	86	104	21	26	37	21	10	329	
80% to 90%	12	34	82	7	5	19	15	8	182	
90% to 100%	3	2	41	1	1	7	10	8	73	
	808	505	535	284	204	174	106	75	2,691	1.5
Not fully collateralised										
Over 100% LTV (B)	-	1	7	-	-	1	1	39	49	-
Collateral value on B	*-*	*1*	*6*	*-*	*-*	*1*	*1*	*31*	*40*	
Negative equity on B	*-*	*-*	*1*	*-*	*-*	*-*	*-*	*8*	*9*	
Total non-performing loans	808	506	542	284	204	175	107	114	2,740	1.5
Total residential mortgages	59,605	31,173	26,774	21,931	16,409	11,280	5,318	2,772	175,262	100.0
Geographical concentrations	34%	18%	15%	13%	9%	6%	3%	2%	100%	

Lending risk – Residential mortgages (continued)

Residential mortgage balances by LTV and region 4 April 2017	Greater London £m	Central England £m	Northern England £m	South East England £m	South West England £m	Scotland £m	Wales £m	Northern Ireland £m	Total £m	%
Performing loans										
Fully collateralised										
LTV ratio:										
Up to 50%	28,493	9,737	6,361	8,783	5,630	2,915	1,208	833	63,960	
50% to 60%	11,822	5,612	3,748	4,637	3,141	1,649	681	357	31,647	
60% to 70%	8,659	6,888	5,737	3,852	3,426	2,366	972	395	32,295	
70% to 80%	5,169	4,905	5,897	2,216	2,198	2,619	1,296	352	24,652	
80% to 90%	3,084	2,483	3,304	1,314	1,207	1,285	707	324	13,708	
90% to 100%	288	237	699	132	102	157	233	140	1,988	
	57,515	29,862	25,746	20,934	15,704	10,991	5,097	2,401	168,250	98.2
Not fully collateralised										
Over 100% LTV (A)	5	6	40	2	3	16	8	239	319	0.2
Collateral value on A	*4*	*5*	*35*	*1*	*2*	*15*	*8*	*199*	*269*	
Negative equity on A	*1*	*1*	*5*	*1*	*1*	*1*	*-*	*40*	*50*	
Total performing loans	57,520	29,868	25,786	20,936	15,707	11,007	5,105	2,640	168,569	98.4
Non-performing loans										
Fully collateralised										
LTV ratio:										
Up to 50%	504	153	100	120	66	40	20	25	1,028	
50% to 60%	192	98	69	69	41	28	12	11	520	
60% to 70%	69	105	107	58	49	42	17	12	459	
70% to 80%	17	94	105	21	32	36	24	10	339	
80% to 90%	8	42	86	6	6	18	15	11	192	
90% to 100%	1	7	53	-	1	7	14	7	90	
	791	499	520	274	195	171	102	76	2,628	1.6
Not fully collateralised										
Over 100% LTV (B)	-	1	12	-	-	2	3	48	66	-
Collateral value on B	*-*	*1*	*11*	*-*	*-*	*2*	*3*	*38*	*55*	
Negative equity on B	*-*	*-*	*1*	*-*	*-*	*-*	*-*	*10*	*11*	
Total non-performing loans	791	500	532	274	195	173	105	124	2,694	1.6
Total residential mortgages	58,311	30,368	26,318	21,210	15,902	11,180	5,210	2,764	171,263	100.0
Geographical concentrations	34%	18%	15%	12%	9%	7%	3%	2%	100%	

The value of partially collateralised non-performing loans has reduced to £49 million (4 April 2017: £66 million), primarily reflecting the growth in house prices.

During the period the proportion of loan balances with an LTV greater than 80% has reduced to 9.5% (4 April 2017: 9.6%).

Arrears

Number of cases more than 3 months in arrears as % of total book	**30 September 2017** %	4 April 2017 %
Prime	**0.35**	0.36
Specialist	**0.86**	0.89
Total	**0.44**	0.45
CML industry average	**0.86**	0.91

Favourable economic conditions and a continued low interest environment have resulted in the arrears performance of both the prime and specialist mortgage portfolios reaching a level where any future changes are more likely to be gradual increases rather than further falls. The combined arrears rate of 0.44% is approximately half of the Council of Mortgage Lenders' (CML) industry average rate of 0.86%.

Lending risk – Residential mortgages (continued)

Impaired loans

Impaired and non-performing loans are identified primarily by arrears status, as shown in the table below.

Residential mortgages by payment status	30 September 2017			
	Prime £m	Specialist £m	Total £m	%
Performing:				
Neither past due nor impaired	140,460	32,062	172,522	98.5
Non-performing:				
Past due up to 3 months	1,303	678	1,981	1.1
Impaired:				
Past due 3 to 6 months	155	165	320	0.2
Past due 6 to 12 months	112	110	222	0.1
Past due over 12 months	99	84	183	0.1
Litigations (past term interest only)	1	1	2	-
Possessions	8	24	32	-
Total non-performing loans	1,678	1,062	2,740	1.5
Total residential mortgages	142,138	33,124	175,262	100.0
Non-performing loans as a % of total residential mortgages	1.2%	3.2%	1.6%	
Impairment provisions (£m)	37	113	150	
Impairment provisions as a % of non-performing balances	2.2%	10.6%	5.5%	
Impairment provisions as a % of total residential mortgages	0.03%	0.34%	0.09%	

Residential mortgages by payment status	4 April 2017			
	Prime £m	Specialist £m	Total £m	%
Performing:				
Neither past due nor impaired	136,374	32,195	168,569	98.4
Non-performing:				
Past due up to 3 months	1,258	663	1,921	1.1
Impaired:				
Past due 3 to 6 months	156	173	329	0.2
Past due 6 to 12 months	117	118	235	0.2
Past due over 12 months	91	91	182	0.1
Litigations (past term interest only)	-	1	1	-
Possessions	8	18	26	-
Total non-performing loans	1,630	1,064	2,694	1.6
Total residential mortgages	138,004	33,259	171,263	100.0
Non-performing loans as a % of total residential mortgages	1.2%	3.2%	1.6%	
Impairment provisions (£m)	34	110	144	
Impairment provisions as a % of non-performing balances	2.1%	10.3%	5.3%	
Impairment provisions as a % of total residential mortgages	0.02%	0.33%	0.08%	

Impairment provisions increased to £150 million (4 April 2017: £144 million) due to updates to assumptions to reflect current economic conditions.

Impairment losses for the period	**Half year to 30 September 2017 £m**	Half year to 30 September 2016 £m
Prime	4	1
Specialist	8	4
Total	12	5

Lending risk – Residential mortgages (continued)

Interest only mortgages

Nationwide does not offer any new advances for prime residential mortgages on an interest only basis. However, there are historical balances which were originally advanced as interest only mortgages or where a change in terms to an interest only basis was agreed (this option was withdrawn in 2012). Maturities of interest only mortgages are managed closely, engaging regularly with customers to ensure the loan can be redeemed or to agree a strategy for repayment.

The majority of the specialist portfolio comprises buy to let loans, of which approximately 82% continue to be advanced on an interest only basis.

Interest only mortgages	Term expired (still open)	Due within one year	Due after one year and before two years	Due after two years and before five years	Due after more than five years	Total	% of total book
30 September 2017	£m	£m	£m	£m	£m	£m	%
Prime	66	323	408	1,612	12,381	14,790	10.4
Specialist	105	203	213	1,231	27,835	29,587	89.3
Total	171	526	621	2,843	40,216	44,377	25.3
4 April 2017							
Prime	64	337	444	1,636	13,604	16,085	11.7
Specialist	104	202	216	1,173	28,037	29,732	89.4
Total	168	539	660	2,809	41,641	45,817	26.8

Interest only loans that are 'term expired (still open)' are, to the extent that they are not otherwise in arrears, considered performing for six months, pending renegotiation of the facility. After six months, the loans are, if not in litigation, classified as forborne.

Forbearance

Nationwide is committed to supporting customers facing financial difficulty by working with them to find a solution through proactive arrears management and forbearance.

The table below provides details of residential mortgages subject to forbearance. The Annual Report and Accounts 2017 sets out details of concession events included within forbearance.

Balance subject to forbearance	30 September 2017			4 April 2017		
	Prime	Specialist	Total	Prime	Specialist	Total
	£m	£m	£m	£m	£m	£m
Past term interest only concessions	151	147	298	154	141	295
Interest only concessions	506	70	576	501	70	571
Capitalisation	54	64	118	59	72	131
Term extension (within term)	35	14	49	42	16	58
Permanent interest only conversions	5	27	32	6	33	39
Total forbearance	751	322	1,073	762	332	1,094
Impairment provision on forborne loans	8	10	18	7	11	18

Note:
Loans where more than one concession event has occurred are reported under the latest event.

Lending risk – (continued)

Consumer banking

The consumer banking portfolio comprises balances on unsecured retail banking products, specifically overdrawn current accounts, personal loans and credit cards. Total balances across these portfolios have grown by 2% to £4,011 million during the period (4 April 2017: £3,949 million).

Nationwide continues to monitor carefully the composition and performance of the unsecured portfolios, in light of the growth in consumer credit balances observed across the industry. A number of proactive steps have been taken in order to enhance monitoring and controls, ensuring all lending continues to be undertaken responsibly.

Impairment provisions are held against both performing and non-performing segments of the consumer banking portfolio. Provision balances have increased in the period, largely due to updates to provision assumptions to reflect the current economic conditions. Although loans continue to perform, there are emerging indications that borrowers are under more pressure from levels of debt relative to income. Across the consumer banking portfolios this has led to increased provision coverage as a percentage of total non-performing balances by 2%.

Consumer banking balances	30 September 2017		4 April 2017	
	£m	%	£m	%
Overdrawn current accounts	210	5	261	7
Personal loans	2,006	50	1,957	49
Credit cards	1,795	45	1,731	44
Total consumer banking	4,011	100	3,949	100

Impaired loans

Lending risk on the consumer banking portfolios is primarily monitored and reported based on delinquency status, since no security is held against the loans. The Annual Report and Accounts 2017 sets out how impaired loans are defined.

Consumer banking by payment due status	30 September 2017				
	Overdrawn current accounts	Personal loans	Credit cards	Total	
	£m	£m	£m	£m	%
Performing:					
Neither past due nor impaired	171	1,864	1,657	3,692	92
Non-performing:					
Past due up to 3 months	13	41	33	87	
Impaired:					
Past due 3 to 6 months	4	11	11	26	
Past due 6 to 12 months	3	11	2	16	
Past due over 12 months	3	14	-	17	
	23	77	46	146	4
Charged off (note i)	16	65	92	173	4
Total non-performing	39	142	138	319	
Total consumer banking lending	210	2,006	1,795	4,011	100
Non-performing loans as % of total (excluding charged off balances)	12%	4%	3%	4%	
Impairment provisions excluding charged off balances	17	53	50	120	
Impairment provisions on charged off balances	15	62	85	162	
Total impairment provisions	32	115	135	282	
Impairment provisions as a % of non-performing loans (including charged off balances)	82%	81%	98%	88%	
Impairment provisions as % of total balances	15%	6%	8%	7%	

Lending risk – Consumer banking (continued)

Consumer banking by payment due status	4 April 2017				
	Overdrawn current accounts	Personal loans	Credit cards	Total	
	£m	£m	£m	£m	%
Performing:					
Neither past due nor impaired	225	1,822	1,591	3,638	92
Non-performing:					
Past due up to 3 months	12	38	28	78	
Impaired:					
Past due 3 to 6 months	4	10	12	26	
Past due 6 to 12 months	3	11	2	16	
Past due over 12 months	3	14	-	17	
	22	73	42	137	4
Charged off (note i)	14	62	98	174	4
Total non-performing	36	135	140	311	
Total consumer banking lending	261	1,957	1,731	3,949	100
Non-performing loans as % of total (excluding charged off balances)	9%	4%	3%	4%	
Impairment provisions excluding charged off balances	15	48	42	105	
Impairment provisions on charged off balances	13	60	91	164	
Total impairment provisions	28	108	133	269	
Impairment provisions as a % of non-performing loans (including charged off balances)	78%	80%	95%	86%	
Impairment provisions as % of total balances	11%	6%	8%	7%	

Note:
i. Charged off balances relate to accounts which are closed to future transactions and are held on the balance sheet for an extended period (up to 36 months, depending on the product) whilst recovery procedures take place.

Total non-performing balances (excluding charged off accounts) have increased to £146 million (4 April 2017: £137 million), but represent a stable proportion of the overall balances as consumer banking portfolios have continued to grow modestly over recent periods.

Impairment losses for the period	Overdrawn current accounts	Personal loans	Credit cards	Total
	£m	£m	£m	£m
Half year to 30 September 2017	**7**	**19**	**26**	**52**
Half year to 30 September 2016	4	11	17	32

Impairment losses have increased compared with the same period last year, reflecting a rate of incurred losses which is in line with the full year performance for 2016/17. The charge in the period includes the impact of updated provision assumptions to reflect current economic conditions, including affordability trends.

Lending risk – Consumer banking (continued)

Forbearance

The table below provides details of consumer banking balances that are currently subject to forbearance, split by the concession events agreed. The Annual Report and Accounts 2017 sets out details of concession events included within forbearance.

Balances subject to forbearance 30 September 2017	Overdrawn current accounts £m	Personal loans £m	Credit cards £m	Total £m
Payment concession	18	-	2	20
Interest suppressed payment concession	5	30	18	53
Balances re-aged/re-written	-	-	4	4
Total forbearance	23	30	24	77
Impairment provision on forborne loans	3	25	15	43
4 April 2017				
Payment concession	17	-	2	19
Interest suppressed payment concession	5	29	18	52
Balances re-aged/re-written	-	-	5	5
Total forbearance	22	29	25	76
Impairment provision on forborne loans	3	24	16	43

Note:
Where more than one concession event has occurred, exposures are reported under the latest event.

Commercial lending

The commercial loan portfolio comprises the following:

Commercial lending balances	30 September 2017 £m	%	4 April 2017 £m	%
Commercial real estate (CRE)	2,231	21	2,568	23
Registered social landlords (note i)	7,356	69	7,546	67
Project finance (note ii)	1,013	10	1,096	10
Total commercial lending	10,600	100	11,210	100
Fair value adjustment for micro hedged risk (note iii)	1,172		1,370	
Total	11,772		12,580	

Notes:
i. Loans to registered social landlords are secured on residential property.
ii. Loans advanced in relation to project finance are secured on cash flows from government or local authority backed contracts.
iii. Micro hedged risk relates to loans hedged on an individual basis.

The strategy for the commercial lending portfolio continues to be to hold and actively manage to maturity in line with contractual terms.

The registered social landlord and project finance portfolios now amount to 79% (4 April 2017: 77%) of the commercial lending portfolio. This increase is due to the quicker run-off of the CRE portfolio, which is subject to shorter maturity dates. Notwithstanding the reduction in CRE lending, the exposure remains well spread across sectors and geographic regions. The registered social landlord and project finance assets are fully performing and remain stable, reflecting their long term, lower risk nature with a long history of zero defaults. The detailed disclosures below therefore relate only to the CRE portfolio.

Lending risk – Commercial lending (continued)

Lending risk

Lending risk in the commercial loan portfolio is linked to delinquency and the availability of collateral to cover any loan balances. Nationwide adopts robust credit management policies and processes designed to recognise and manage the risks arising, or likely to arise, from the portfolio.

The lending risk in the CRE portfolio continues to reduce as the portfolio of loans contracts, the volume of non-performing loans reduces and real estate market conditions remain stable.

Loan to value

The following tables show the CRE portfolio by LTV and region:

CRE lending balances by LTV and region	London	South East	Rest of UK (note i)	Total	
30 September 2017	£m	£m	£m	£m	%
Performing loans					
Fully collateralised					
LTV ratio (note ii):					
Less than 25%	221	22	50	293	
25% to 50%	667	140	281	1,088	
51% to 75%	376	42	302	720	
76% to 90%	1	8	42	51	
91% to 100%	-	-	1	1	
	1,265	212	676	2,153	97
Not fully collateralised:					
Over 100% LTV (A)	-	-	2	2	-
Collateral value on A	-	-	*1*	*1*	
Negative equity on A	-	-	*1*	*1*	
Total performing loans	1,265	212	678	2,155	97
Non-performing loans (note iii)					
Fully collateralised					
LTV ratio:					
Less than 25%	1	-	1	2	
25% to 50%	12	1	6	19	
51% to 75%	4	1	5	10	
76% to 90%	4	7	3	14	
91% to 100%	-	-	2	2	
	21	9	17	47	2
Not fully collateralised					
Over 100% LTV (B)	-	-	29	29	1
Collateral value on B	-	-	*17*	*17*	
Negative equity on B (note iv)	-	-	*12*	*12*	
Total non-performing loans	21	9	46	76	3
Total CRE loans	1,286	221	724	2,231	100
Geographical concentration	58%	10%	32%	100%	

Lending risk – Commercial lending (continued)

CRE lending balances by LTV and region 4 April 2017	London £m	South East £m	Rest of UK (note i) £m	Total £m	%
Performing loans					
Fully collateralised					
LTV ratio (note ii)					
Less than 25%	217	19	38	274	
25% to 50%	702	178	359	1,239	
51% to 75%	466	66	361	893	
76% to 90%	8	4	59	71	
91% to 100%	1	8	1	10	
	1,394	275	818	2,487	97
Not fully collateralised					
Over 100% LTV (A)	2	-	5	7	-
Collateral value on A	*-*	*-*	*4*	*4*	
Negative equity on A	*2*	*-*	*1*	*3*	
Total performing loans	1,396	275	823	2,494	97
Non-performing loans (note iii)					
Fully collateralised					
LTV ratio:					
Less than 25%	1	-	-	1	
25% to 50%	9	3	2	14	
51% to 75%	8	1	4	13	
76% to 90%	-	-	3	3	
91% to 100%	3	4	3	10	
	21	8	12	41	2
Not fully collateralised					
Over 100% LTV (B)	1	3	29	33	1
Collateral value on B	*-*	*-*	*20*	*20*	
Negative equity on B (note iv)	*1*	*3*	*9*	*13*	
Total non-performing loans	22	11	41	74	3
Total CRE loans	1,418	286	864	2,568	100
Geographical concentration	55%	11%	34%	100%	

Notes:
i. Includes lending to borrowers based in the Channel Islands.
ii. The LTV ratio is calculated using the on-balance sheet carrying amount of the loan divided by the indexed value of the most recent independent external collateral valuation. The Investment Property Databank (IPD) monthly index is used.
iii. Non-performing loans include impaired loans and loans with arrears of less than three months which are not impaired.
iv. All non-performing loans with negative equity are impaired.

Non-performing loans represent 3% of CRE balances (4 April 2017: 3%). Both the amount of partially collateralised non-performing loans and the shortfall on collateral for non-performing loans have marginally reduced, reflecting the improving book performance and managed exit activity.

Lending risk – Commercial lending (continued)

Credit risk concentrations

The CRE exposure remains well spread across sectors, and geographic regions as shown below:

CRE lending balances and impairment provisions by type and region (note i) 30 September 2017	London £m	South East £m	Rest of UK (note ii) £m	Total £m
Retail	271	118	138	527
Office	232	19	200	451
Residential	692	35	218	945
Industrial and warehouse	26	26	82	134
Leisure and hotel	65	23	65	153
Other	-	-	21	21
Total CRE lending	**1,286**	**221**	**724**	**2,231**
Impairment provision:				
Retail	1	1	2	4
Office	-	-	2	2
Residential	2	-	3	5
Industrial and warehouse	-	-	-	-
Leisure and hotel	-	-	5	5
Other	-	-	7	7
Total impairment provisions	**3**	**1**	**19**	**23**

CRE lending balances and impairment provisions by type and region (note i) 4 April 2017	London £m	South East £m	Rest of UK (note ii) £m	Total £m
Retail	433	170	209	812
Office	222	28	222	472
Residential	686	37	263	986
Industrial and warehouse	29	29	99	157
Leisure and hotel	48	22	57	127
Other	-	-	14	14
Total CRE lending	1,418	286	864	2,568
Impairment provision:				
Retail	1	4	2	7
Office	1	-	2	3
Residential	1	-	5	6
Industrial and warehouse	-	-	1	1
Leisure and hotel	-	-	6	6
Other	-	-	2	2
Total impairment provisions	3	4	18	25

Notes:

i. A CRE loan may be secured on assets crossing different types and regions; the balances are therefore attributed to the sector and region where the majority of the exposure arises. This can lead to recategorisations occurring between periods if the asset mix changes.

ii. Includes lending to borrowers based in the Channel Islands.

Lending risk – Commercial lending (continued)

Arrears and impairment

No losses have been experienced on the registered social landlord or project finance portfolios and there is no non-performance within these portfolios. As a result, impairment provisions are only required against the CRE portfolio.

The table below sets out the payment due status and impairment provisions for the CRE portfolio:

CRE lending balances by payment due status	30 September 2017 £m	30 September 2017 %	4 April 2017 £m	4 April 2017 %
Performing:				
Neither past due nor impaired	2,155	97	2,494	97
Non-performing:				
Past due up to 3 months but not impaired (note i)	35	2	29	1
Impaired (note ii):				
Past due up to 3 months	12	-	24	1
Past due 3 to 6 months	4	-	1	-
Past due 6 to 12 months	7	-	3	-
Past due over 12 months	18	1	17	1
Possessions (note iii)	-	-	-	-
Total non-performing balances	76	3	74	3
Total	2,231	100	2,568	100
Impairment provisions				
Individual	18	78	20	80
Collective	5	22	5	20
Total impairment provisions	23	100	25	100
Provision coverage ratios				
Individual provisions as % of impaired balances		44		44
Total provisions as % of non-performing balances		30		34
Total provisions as % of total balances		1		1
Estimated collateral:				
Against loans past due but not impaired	35	100	29	100
Against impaired loans	29	71	32	71
Total collateral against non-performing balances	64	84	61	82

Notes:

i. The status 'past due up to 3 months but not impaired' includes any asset where a payment due under strict contractual terms is received late or missed. The amount included is the entire financial asset rather than just the payment overdue.

ii. Impaired loans include those balances which are more than three months in arrears, or against which an individual provision is held.

iii. Possession balances represent loans for which Nationwide has taken ownership of security pending sale. Assets in possession are realised to derive the maximum benefit for all interested parties. Nationwide does not occupy or otherwise use for any purposes the repossessed assets.

Total non-performing loans, before provisions, have increased by £2 million to £76 million. This increase is due to loans, which are past their maturity date, being held whilst exit strategies are agreed and executed with the borrower. There has been a reduction of £2 million in total impairment provisions, reflecting the managed exit activity and improving book performance.

Impairment reversal for the period	Half year to 30 September 2017 £m	Half year to 30 September 2016 £m
Total	5	5

Improved CRE market conditions, including increased liquidity and capital values, have resulted in a net impairment reversal of £5 million (H1 2016/17: £5 million), including recoveries.

Lending risk – Commercial lending (continued)

Forbearance

The table below provides details of CRE balances that are currently subject to forbearance, split by the concession events agreed. The Annual Report and Accounts 2017 sets out further details of concession events included within forbearance.

Balances subject to forbearance	30 September 2017 £m	4 April 2017 £m
Refinance	83	34
Modifications:		
Interest concession	-	1
Capital concession	51	50
Security amendment	19	56
Extension at maturity	77	126
Breach of covenant	41	80
Total forbearance	271	347
Impairment provision on forborne loans	14	17

Note:
Where more than one concession event has occurred, exposures are reported under the latest event.

Overall, the level of forbearance has reduced, reflecting the managed exit activity and improving book performance. The increase in forbearance, as a result of refinance, reflects short term support provided to borrowers in the execution of the portfolio exit strategy.

Treasury assets

The Treasury portfolio is held primarily for liquidity management and, in the case of derivatives, for market risk management.

The net increase in the portfolio is predominantly due to an increase in cash balances. This follows further drawdowns in the Term Funding Scheme (TFS).

Treasury asset balances	30 September 2017 £m	4 April 2017 £m
Cash	15,302	13,017
Loans and advances to banks	3,009	2,587
Investment securities	10,829	9,831
Treasury liquidity and investment portfolio	29,140	25,435
Derivative assets	5,066	5,043
Total treasury portfolio	34,206	30,478

Note:
Derivatives are classified as assets where their fair value is positive and liabilities where their fair value is negative. At 30 September 2017, derivative liabilities were £2,549 million (4 April 2017: £3,182 million).

In line with the Board's risk appetite, investment activity is restricted to high quality liquid securities. In addition, cash is invested in highly rated liquid assets that are eligible for accessing central bank funding operations.

The balance of out of policy legacy assets has reduced from £172 million to £73 million during the period through ongoing sales. Opportunities to exit positions continue to be assessed against prevailing market conditions and financial implications.

Managing treasury credit risk

Credit risk within the Treasury portfolio arises primarily from the instruments held for operational, liquidity and investment purposes. The Treasury Credit Risk function manages all aspects of credit risk in accordance with Nationwide's risk governance framework, details of which are provided in the Annual Report and Accounts 2017.

Lending risk – Treasury assets (continued)

Liquidity and investment portfolios

The liquidity and investment portfolio of £29,140 million (4 April 2017: £25,435 million) comprises liquid assets and other securities. The size of the portfolio reflects operational and strategic liquidity requirements. An analysis of the on-balance sheet portfolios by asset class, credit rating and geographical location of the issuers is set out below.

Liquidity and investment portfolio by credit rating (note i) 30 September 2017	**£m**	**AAA %**	**AA %**	**A %**	**Other %**	**UK %**	**US %**	**Europe %**	**Other %**
Liquid assets:									
Cash and reserves at central banks	15,302	-	100	-	-	100	-	-	-
Government bonds	6,538	10	90	-	-	78	6	16	-
Supranational bonds	547	95	5	-	-	-	-	-	100
Covered bonds	982	100	-	-	-	46	-	34	20
Residential mortgage backed securities (RMBS)	802	100	-	-	-	62	-	38	-
Asset-backed securities (other)	300	100	-	-	-	74	-	26	-
Liquid assets total	**24,471**	**13**	**87**	**-**	**-**	**88**	**2**	**7**	**3**
Other securities:									
RMBS	1,403	75	7	16	2	100	-	-	-
Collateralised loan obligations	80	83	17	-	-	100	-	-	-
Student loans	68	24	76	-	-	-	100	-	-
Other investments	109	-	39	37	24	28	34	38	-
Other securities total	**1,660**	**68**	**12**	**16**	**4**	**92**	**6**	**2**	**-**
Loans and advances to banks (note ii)	3,009	-	57	42	1	86	6	7	1
Total	**29,140**	**15**	**80**	**5**	**-**	**88**	**2**	**7**	**3**

Liquidity and investment portfolio by credit rating (note i) 4 April 2017	£m	AAA %	AA %	A %	Other %	UK %	US %	Europe %	Other %
Liquid assets:									
Cash and reserves at central banks	13,017	-	90	-	10	90	-	10	-
Government bonds	6,438	10	90	-	-	78	9	13	-
Supranational bonds	459	88	12	-	-	-	-	-	100
Covered bonds	931	100	-	-	-	51	-	33	16
Residential mortgage backed securities (RMBS)	922	100	-	-	-	61	-	39	-
Asset-backed securities (other)	285	100	-	-	-	83	-	17	-
Liquid assets total	22,052	14	80	-	6	81	3	13	3
Other securities:									
RMBS	288	27	3	70	-	98	-	2	-
Commercial mortgage backed securities (CMBS)	11	-	38	24	38	38	62	-	-
Collateralised loan obligations	226	86	14	-	-	88	12	-	-
Student loans	120	48	52	-	-	-	100	-	-
Other investments	151	-	32	28	40	44	24	32	-
Other securities total	796	42	19	31	8	69	24	7	-
Loans and advances to banks (note ii)	2,587	-	47	51	2	70	18	10	2
Total	25,435	14	74	6	6	80	5	12	3

Notes:
i. Ratings used are obtained from Standard & Poor's (S&P), and from Moody's if no S&P rating is available. Internal ratings are used if neither is available.
ii. Loans and advances to banks include derivative collateral and reverse repo balances.

Country exposures

The following table summarises the exposure (shown at their balance sheet carrying values) to institutions outside the UK; none of these exposures are in default, and Nationwide has not incurred any impairment on these assets in the period.

Lending risk – Treasury assets (continued)

Country exposures 30 September 2017	Cash £m	Government bonds £m	Mortgage backed securities £m	Covered bonds £m	Supra-national bonds £m	Loans to banks £m	Other corporate £m	Other assets £m	Total £m
Austria	-	67	-	-	-	-	-	-	67
Belgium	-	45	-	-	-	-	-	-	45
Finland	-	270	-	25	-	-	-	-	295
France	-	-	-	32	-	-	-	45	77
Germany	-	395	-	-	-	61	-	76	532
Ireland	-	-	-	-	-	7	-	-	7
Netherlands	-	250	308	-	-	-	-	-	558
Total Eurozone	-	1,027	308	57	-	68	-	121	1,581
USA	-	408	-	-	-	182	-	106	696
Rest of world (note i)	-	-	-	479	547	201	-	-	1,227
Total	-	1,435	308	536	547	451	-	227	3,504

Country exposures 4 April 2017	Cash £m	Government bonds £m	Mortgage backed securities £m	Covered bonds £m	Supra-national bonds £m	Loans to banks £m	Other corporate (note ii) £m	Other assets £m	Total £m
Finland	-	218	-	24	-	-	-	-	242
France	-	-	-	31	-	-	1	54	86
Germany	-	484	-	-	-	44	-	43	571
Ireland	1,258	-	-	-	-	27	-	-	1,285
Italy	-	-	-	-	-	-	3	-	3
Netherlands	-	153	366	-	-	-	-	-	519
Total Eurozone	1,258	855	366	55	-	71	4	97	2,706
USA	16	600	7	-	-	474	-	182	1,279
Rest of world (note i)	-	-	-	400	459	232	-	-	1,091
Total	1,274	1,455	373	455	459	777	4	279	5,076

Notes:
i. Rest of world exposure is to Australia, Canada, Denmark, Norway, Sweden and Switzerland.
ii. Other corporate exposures were held via a European commercial loan facility reported as part of loans and advances to customers, which has now been sold.

Derivative financial instruments

Derivatives are used to reduce exposure to market risks, although the application of accounting rules can create volatility in the income statement. The fair value of derivative assets at 30 September 2017 was £5.1 billion (4 April 2017: £5.0 billion).

To comply with EU regulatory requirements, Nationwide has indirect clearing arrangements with a central counterparty (CCP) which it uses to clear standardised derivatives. Details of the market standard approach adopted for derivative transactions are provided in the Annual Report and Accounts 2017.

The International Swaps and Derivatives Association (ISDA) Master Agreement is Nationwide's preferred agreement for documenting derivative transactions. A Credit Support Annex (CSA) is always executed in conjunction with the ISDA Master Agreement. Under the terms of a CSA, collateral is passed between parties to mitigate the market-contingent counterparty risk inherent in the outstanding positions.

Netting arrangements can be applied to outstanding transactions with the same counterparty and settled net following a default or any other predetermined event. Under CSA arrangements, netting benefits of £1.9 billion (4 April 2017: £2.2 billion) were available and £3.0 billion of collateral (4 April 2017: £2.8 billion) was held. Only cash is held as collateral. The following table shows the exposure to counterparty credit risk for derivative contracts after netting benefits and collateral.

Derivative credit exposure	30 September 2017				4 April 2017			
Counterparty credit quality	AA £m	A £m	BBB £m	Total £m	AA £m	A £m	BBB £m	Total £m
Gross positive fair value of contracts	2,041	3,125	-	5,166	2,077	2,600	390	5,067
Amounts offset	-	(100)	-	(100)	-	(24)	-	(24)
Net amounts reported on the balance sheet	2,041	3,025	-	5,066	2,077	2,576	390	5,043
Netting benefits	(583)	(1,286)	-	(1,869)	(797)	(1,030)	(389)	(2,216)
Net current credit exposure	1,458	1,739	-	3,197	1,280	1,546	1	2,827
Collateral	(1,385)	(1,662)	-	(3,047)	(1,261)	(1,537)	(1)	(2,799)
Net derivative credit exposure	73	77	-	150	19	9	-	28

Financial risk

Financial risk is the risk of Nationwide having inadequate earnings, cash flow or capital to meet current or future requirements and expectations. Financial risk comprises:

- Liquidity and funding risk
- Solvency risk
- Pension risk
- Market risk
- Earnings risk.

Information on Nationwide's exposure to liquidity and funding risk, solvency risk, pension risk and earnings risk, including developments in the period, is provided in the subsequent sections of this report. Nationwide's exposure to market risk has not changed significantly since the financial year end; further information is available in the Annual Report and Accounts 2017.

Liquidity and funding risk

Nationwide manages liquidity and funding risks within a comprehensive risk framework which includes its policy, strategy, limit setting and monitoring, stress testing and robust governance controls.

This framework ensures that Nationwide maintains a stable and diverse funding base and sufficient holdings of high-quality liquid assets so that there is no significant risk that liabilities cannot be met as they fall due.

Liquidity and funding levels continued to be within Board risk appetite and regulatory requirements at all times during the period.

Nationwide monitors its position relative to internal risk appetite and the regulatory short term liquidity stress metric, the Liquidity Coverage Ratio (LCR), which ensures that sufficient high quality liquid assets are held to survive a short term severe but plausible liquidity stress.

Nationwide's LCR at 30 September 2017 was 125.2% (4 April 2017: 124.0%), which reflects its strategy of maintaining a LCR above 100%.

Nationwide also monitors its position against the future longer term regulatory funding metric, the Net Stable Funding Ratio (NSFR). Based on current interpretations of regulatory requirements and guidance, the NSFR at 30 September 2017 was 131.5% (4 April 2017: 132.6%) which exceeds the expected 100% minimum future requirement.

Further details of Nationwide's policies for the management of liquidity and funding risk are contained within the Annual Report and Accounts 2017.

Funding profile

Assets	30 September 2017 £bn	4 April 2017 £bn	Liabilities	30 September 2017 £bn	4 April 2017 £bn
Retail mortgages	175.1	171.1	Retail funding	146.9	146.9
Treasury assets (including liquidity portfolio)	29.1	25.4	Wholesale funding	60.0	55.5
Other retail lending	3.7	3.7	Capital and reserves	16.3	14.3
Commercial/Other lending	11.8	12.6	Other liabilities	4.3	5.0
Other assets	7.8	8.9			
Total	227.5	221.7	**Total**	227.5	221.7

Nationwide's loan to deposit ratio[1] at 30 September 2017 was 125.5% (4 April 2017: 122.6%).

[1] The loan to deposit ratio represents loans and advances to customers divided by shares + other deposits + amounts due to customers (excluding repurchase agreements and collateral received).

Financial risk – Liquidity and funding risk (continued)

Wholesale funding

The wholesale funding portfolio is made up of a range of secured and unsecured instruments to ensure Nationwide has a diversified funding base across a range of instruments, currencies, maturities and investor types. Nationwide's wholesale funding strategy is to remain active in core markets and currencies.

Wholesale funding has increased by £4.5 billion to £60.0 billion. This is due to £3.5 billion of drawings from the Bank of England's Term Funding Scheme (TFS) during the period, to support core activities and replace off-balance sheet Funding for Lending Scheme (FLS) maturities. This additional funding is reflected in Nationwide's wholesale funding ratio (on-balance sheet wholesale funding as a proportion of total funding liabilities) which was 28.2% at 30 September 2017 (4 April 2017: 27.1%).

The table below sets out an analysis by currency of Nationwide's wholesale funding.

Wholesale funding by currency	30 September 2017						4 April 2017					
	GBP £bn	EUR £bn	USD £bn	Other £bn	Total £bn	% of total	GBP £bn	EUR £bn	USD £bn	Other £bn	Total £bn	% of total
Repos	1.1	0.2	0.3	-	1.6	3	-	-	-	-	-	-
Deposits (note i)	6.6	1.4	0.3	-	8.3	14	7.7	1.4	0.1	-	9.2	16
Certificates of deposit	5.1	-	0.1	-	5.2	9	5.3	-	-	-	5.3	10
Commercial paper	-	-	1.5	-	1.5	2	-	-	1.8	-	1.8	3
Covered bonds	2.5	12.7	-	0.2	15.4	26	3.3	11.4	-	0.2	14.9	27
Medium term notes	3.4	7.1	3.3	0.7	14.5	24	3.1	6.2	3.6	0.8	13.7	25
Securitisations	0.8	1.3	1.0	-	3.1	5	0.9	1.2	1.4	-	3.5	6
TFS	9.5	-	-	-	9.5	16	6.0	-	-	-	6.0	11
Other	-	0.9	-	-	0.9	1	0.3	0.8	-	-	1.1	2
Total	29.0	23.6	6.5	0.9	60.0	100	26.6	21.0	6.9	1.0	55.5	100

Note:
i. Includes protected equity bond (PEB) balances of £0.2 billion (4 April 2017: £0.8 billion).

To mitigate cross-currency refinancing risk, Nationwide ensures it holds liquidity in each currency to cover at least the next ten business days of wholesale funding maturities.

The residual maturity of the wholesale funding book, on a contractual maturity basis, is set out below.

Wholesale funding – residual maturity	Not more than one month	Over one month but not more than three months	Over three months but not more than six months	Over six months but not more than one year	Subtotal less than one year	Over one year but not more than two years	Over two years	Total
30 September 2017	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Repos	1.6	-	-	-	1.6	-	-	1.6
Deposits (note i)	5.5	0.9	1.4	0.5	8.3	-	-	8.3
Certificates of deposit	0.9	1.7	1.8	0.8	5.2	-	-	5.2
Commercial paper	0.6	0.3	0.6	-	1.5	-	-	1.5
Covered bonds	0.1	-	-	0.8	0.9	1.6	12.9	15.4
Medium term notes	-	-	1.2	0.2	1.4	3.0	10.1	14.5
Securitisations	0.1	-	0.2	0.4	0.7	0.7	1.7	3.1
TFS	-	-	-	-	-	-	9.5	9.5
Other	-	-	-	-	-	-	0.9	0.9
Total	8.8	2.9	5.2	2.7	19.6	5.3	35.1	60.0
Of which secured	1.8	-	0.2	1.2	3.2	2.3	24.9	30.4
Of which unsecured	7.0	2.9	5.0	1.5	16.4	3.0	10.2	29.6
% of total	14.7%	4.8%	8.7%	4.5%	32.7%	8.8%	58.5%	100.0%

Financial risk – Liquidity and funding risk (continued)

Wholesale funding – residual maturity 4 April 2017	Not more than one month £bn	Over one month but not more than three months £bn	Over three months but not more than six months £bn	Over six months but not more than one year £bn	Subtotal less than one year £bn	Over one year but not more than two years £bn	Over two years £bn	Total £bn
Repos	-	-	-	-	-	-	-	-
Deposits (note i)	5.3	1.3	2.0	0.6	9.2	-	-	9.2
Certificates of deposit	0.4	1.7	2.4	0.8	5.3	-	-	5.3
Commercial paper	0.5	0.6	0.6	0.1	1.8	-	-	1.8
Covered bonds	-	-	0.8	-	0.8	0.8	13.3	14.9
Medium term notes	-	-	0.1	1.2	1.3	1.8	10.6	13.7
Securitisations	0.3	-	0.3	0.1	0.7	0.6	2.2	3.5
TFS	-	-	-	-	-	-	6.0	6.0
Other	-	-	-	-	-	-	1.1	1.1
Total	6.5	3.6	6.2	2.8	19.1	3.2	33.2	55.5
Of which secured	0.3	-	1.1	0.1	1.5	1.4	22.4	25.3
Of which unsecured	6.2	3.6	5.1	2.7	17.6	1.8	10.8	30.2
% of total	11.7%	6.5%	11.2%	5.0%	34.4%	5.8%	59.8%	100.0%

Note:
i. Includes protected equity bond (PEB) balances of £0.2 billion (4 April 2017: £0.8 billion).

At 30 September 2017 cash, government bonds and supranational bonds included in the liquid asset buffer, including FLS treasury bills, represented 121% (4 April 2017: 129%) of wholesale funding maturing in less than one year, assuming no rollovers.

Total liquidity

Nationwide ensures it has sufficient liquid assets, both in terms of amount and quality, to meet daily cash flow needs as well as stressed requirements driven by internal and regulatory liquidity assessments.

The table below sets out the sterling equivalent fair value of the liquidity portfolio, categorised by issuing currency. It includes off-balance sheet liquidity (FLS treasury bills) and excludes encumbered assets.

Liquid assets	**30 September 2017**				4 April 2017			
	GBP £bn	**EUR £bn**	**USD £bn**	**Total £bn**	GBP £bn	EUR £bn	USD £bn	Total £bn
Cash and reserves at central banks	**15.3**	**-**	**-**	**15.3**	11.8	1.2	-	13.0
Government bonds	**7.1**	**0.6**	**0.2**	**7.9**	10.0	0.5	0.7	11.2
Supranational bonds	**0.3**	**-**	**0.3**	**0.6**	0.2	-	0.3	0.5
Covered bonds	**0.3**	**0.6**	**-**	**0.9**	0.4	0.5	-	0.9
RMBS	**1.9**	**0.3**	**-**	**2.2**	0.5	0.4	-	0.9
Asset-backed securities	**-**	**0.1**	**0.1**	**0.2**	0.3	-	-	0.3
Other securities	**0.3**	**0.1**	**-**	**0.4**	0.3	0.2	0.2	0.7
Total	**25.2**	**1.7**	**0.6**	**27.5**	23.5	2.8	1.2	27.5

Government bonds in the table above include £3.0 billion of off-balance sheet FLS treasury bills. The average combined month end balance of cash and reserves at central banks, government and supranational bonds during the period was £26.6 billion (4 April 2017: £29.5 billion).

Financial risk – Liquidity and funding risk (continued)

Residual maturity of financial assets and liabilities

The table below segments the carrying value of financial assets and financial liabilities into relevant maturity groupings based on the final contractual maturity date (residual maturity).

Residual maturity (note i) 30 September 2017	Due less than one month (note ii) £m	Due between one and three months £m	Due between three and six months £m	Due between six and nine months £m	Due between nine and twelve months £m	Due between one and two years £m	Due between two and five years £m	Due after more than five years £m	Total £m
Financial assets									
Cash	15,302	-	-	-	-	-	-	-	15,302
Loans and advances to banks	2,663	2	-	-	-	-	-	344	3,009
Investment securities	2	80	68	124	-	326	2,490	7,698	10,788
Loans and advances to customers	2,935	1,341	1,957	1,920	1,887	7,471	22,640	150,515	190,666
Derivative financial instruments	6	31	195	31	4	629	2,348	1,822	5,066
Other financial assets (note iii)	1	-	-	(4)	(5)	(21)	23	238	232
Total financial assets	20,909	1,454	2,220	2,071	1,886	8,405	27,501	160,617	225,063
Financial liabilities									
Shares	114,761	2,722	4,483	4,642	4,213	10,368	3,898	1,297	146,384
Deposits from banks	3,209	49	19	2	32	-	9,455	-	12,766
Of which repo	*467*	-	-	-	-	-	-	-	*467*
Of which TFS	-	-	-	-	-	-	*9,455*	-	*9,455*
Other deposits	3,982	882	1,403	152	288	19	-	-	6,726
Of which repo	*1,177*	-	-	-	-	-	-	-	*1,177*
Due to customers	548	-	-	-	-	-	-	-	548
Secured funding – ABS and covered bonds	147	9	190	912	269	2,344	8,156	7,280	19,307
Senior unsecured funding	1,548	2,038	3,564	702	280	2,991	5,330	4,731	21,184
Derivative financial instruments	108	20	27	33	23	61	304	1,973	2,549
Other financial liabilities (note iii)	-	-	-	(1)	-	(2)	(22)	-	(25)
Subordinated liabilities	-	-	111	-	-	-	713	2,909	3,733
Subscribed capital (note iv)	-	-	-	-	-	-	-	265	265
Total financial liabilities	124,303	5,720	9,797	6,442	5,105	15,781	27,834	18,455	213,437
Off-balance sheet commitments (note v)	13,117	-	-	-	-	-	-	-	13,117
Net liquidity difference	(116,511)	(4,266)	(7,577)	(4,371)	(3,219)	(7,376)	(333)	142,162	(1,491)
Cumulative liquidity difference	(116,511)	(120,777)	(128,354)	(132,725)	(135,944)	(143,320)	(143,653)	(1,491)	-

Financial risk – Liquidity and funding risk (continued)

Residual maturity (note i) 4 April 2017	Due less than one month (note ii) £m	Due between one and three months £m	Due between three and six months £m	Due between six and nine months £m	Due between nine and twelve months £m	Due between one and two years £m	Due between two and five years £m	Due after more than five years £m	Total £m
Financial assets									
Cash	13,017	-	-	-	-	-	-	-	13,017
Loans and advances to banks	2,226	-	-	-	-	-	-	361	2,587
Investment securities	40	13	116	66	57	216	2,002	7,254	9,764
Loans and advances to customers	2,890	1,309	1,937	1,877	1,910	7,259	22,057	148,132	187,371
Derivative financial instruments	11	94	130	30	121	324	2,317	2,016	5,043
Other financial assets (note iii)	36	22	15	28	10	60	265	384	820
Total financial assets	18,220	1,438	2,198	2,001	2,098	7,859	26,641	158,147	218,602
Financial liabilities									
Shares	112,403	1,666	6,169	4,905	4,513	9,842	3,870	1,174	144,542
Deposits from banks	2,499	123	20	48	16	28	6,000	-	8,734
Of which repo	-	-	-	-	-	-	-	-	-
Of which TFS	-	-	-	-	-	-	*6,000*	-	*6,000*
Other deposits	2,882	1,075	1,885	336	255	15	11	-	6,459
Of which repo	-	-	-	-	-	-	-	-	-
Due to customers	1,818	130	305	45	67	11	-	-	2,376
Secured funding – ABS and covered bonds	341	20	1,086	128	90	1,394	10,137	6,280	19,476
Senior unsecured funding	894	2,339	3,126	657	1,431	1,765	5,022	5,629	20,863
Derivative financial instruments	37	11	35	41	57	135	505	2,361	3,182
Other financial liabilities (note iii)	-	-	(2)	-	1	8	1	-	8
Subordinated liabilities	-	-	-	-	103	-	700	2,102	2,905
Subscribed capital (note iv)	-	-	-	-	-	-	-	276	276
Total financial liabilities	120,874	5,364	12,624	6,160	6,533	13,198	26,246	17,822	208,821
Off-balance sheet commitments (note v)	15,784	-	-	-	-	-	-	-	15,784
Net liquidity difference	(118,438)	(3,926)	(10,426)	(4,159)	(4,435)	(5,339)	395	140,325	(6,003)
Cumulative liquidity difference	(118,438)	(122,364)	(132,790)	(136,949)	(141,384)	(146,723)	(146,328)	(6,003)	-

Notes:

i. The analysis excludes certain non-financial assets (including property, plant and equipment, intangible assets, investment property, other assets, deferred tax assets and accrued income and expenses prepaid) and non-financial liabilities (including provisions for liabilities and charges, accruals and deferred income, current tax liabilities, other liabilities and retirement benefit obligations).

ii. Due less than one month includes amounts repayable on demand.

iii. Other financial assets and liabilities include the fair value adjustments for portfolio hedged risk and investments in equity shares.

iv. The principal amount for undated subscribed capital is included within the due more than five years column.

v. Off-balance sheet commitments include amounts payable on demand for unrecognised loan commitments, customer overpayments on residential mortgages where the borrower is able to draw down the amount overpaid and commitments to acquire financial assets.

Asset encumbrance

Asset encumbrance arises from collateral pledged against secured funding and other collateralised obligations. The majority of asset encumbrance within Nationwide arises from the use of prime mortgage pools to collateralise the Covered Bond and Silverstone asset-backed funding programmes and from participation in the TFS and FLS. Encumbrance also results from repurchase transactions, voluntary excess collateral balances, participation in payment schemes and collateral posted for derivative margin requirements. Assets that have been used for any of these purposes cannot be utilised for other purposes and are therefore classified as encumbered.

At 30 September 2017, Nationwide had £34,142 million (4 April 2017: £33,232 million) of externally encumbered assets with counterparties other than central banks. Nationwide also had £35,465 million (4 April 2017: £34,335 million) of pre-positioned and encumbered assets held at central banks and £149,268 million (4 April 2017: £144,690 million) of assets neither encumbered nor pre-positioned but capable of being encumbered. Further details of Nationwide's policies for asset encumbrance are contained within the Annual Report and Accounts 2017.

Financial risk – Liquidity and funding risk (continued)

External credit ratings

The Group's long term and short term credit ratings are shown in the table below.

Credit ratings	Long term	Short term	Tier 2	Date of last rating action / confirmation	Outlook
Standard & Poor's	A	A-1	BBB	November 2017	Stable
Moody's	Aa3	P-1	Baa1	August 2017	Stable
Fitch	A+	F1	A-	February 2017	Stable

In August 2017, Standard and Poor's affirmed Nationwide's A/A-1 long and short term ratings, with a negative outlook reflecting its view on a negative trend for economic risk in the UK following the outcome of the EU referendum. In November 2017, Standard & Poor's revised the trend on economic risk for the UK banking sector to stable and revised Nationwide's outlook to stable. In addition, Moody's changed the outlook on Nationwide's deposits and senior unsecured debt to stable from negative in August 2017, reflecting its expectation of a moderate deterioration in the operating environment in the UK, to which Nationwide is now more resilient.

Solvency risk

Solvency risk is the risk that Nationwide fails to maintain sufficient capital to absorb losses throughout a full economic cycle and sufficient to maintain the confidence of current and prospective investors, members, the Board and regulators. Further information on solvency risk and how it is managed can be found in the Annual Report and Accounts 2017 and the Annual Pillar 3 Disclosure 2017 at **nationwide.co.uk**

Capital position

The capital disclosures included in this report are on a Capital Requirements Directive IV (CRD IV) end point basis. This assumes that all CRD IV requirements are in force during the period, with no transitional provisions permitted. In addition, the disclosures are on a consolidated Group basis, including all subsidiary entities, unless otherwise stated.

Key capital ratios	30 September 2017	4 April 2017
Solvency	%	%
Common Equity Tier 1 (CET1) ratio	29.6	25.4
Total Tier 1 ratio	32.6	28.4
Total regulatory capital ratio	42.7	36.1
Leverage	£m	£m
UK leverage exposure (note i)	220,614	215,894
CRR leverage exposure (note ii)	236,002	228,428
Tier 1 capital	10,750	9,547
	%	%
UK leverage ratio	4.9	4.4
CRR leverage ratio	4.6	4.2

Notes:
i. The UK leverage ratio is shown on the basis of measurement announced by the Prudential Regulation Authority (PRA) and excludes eligible central bank reserves from the leverage exposure measure.
ii. The Capital Requirements Regulation (CRR) leverage ratio is calculated using the CRR definition of Tier 1 for the capital amount and the Delegated Act definition of the exposure measure.

Capital and leverage ratios have remained well in excess of regulatory requirements with a Common Equity Tier 1 (CET1) ratio of 29.6% (4 April 2017: 25.4%) and a UK leverage ratio of 4.9% (4 April 2017: 4.4%).

In September 2017, the Society issued an additional five million of £1 core capital deferred shares (CCDS), as part of our strategy to maintain broad access to capital markets. This issuance supports the continued relevance of this instrument in the context of our strategic capital management and enhances its liquidity. Issuing from a position of strength, we remain well in excess of regulatory capital requirements. These CCDS form a single series together with the CCDS previously issued in December 2013. Further information on CCDS can be found in note 19. Detailed information on the key features of CCDS and other capital instruments can be found within the Interim Pillar 3 Disclosure 2017 at **nationwide.co.uk**

The CET1 ratio has improved following an increase in CET1 capital resources and a reduction in RWAs. CET1 capital resources increased by £1.2 billion as a result of the issuance of CCDS, with net proceeds of £0.8 billion, and profit after tax for the period of £0.5 billion. This was offset by a small increase in regulatory deductions. RWAs reduced by £0.6 billion primarily due to the continued run-off of the commercial book.

Financial risk – Solvency risk (continued)

The total regulatory capital ratio has increased to 42.7% (4 April 2017: 36.1%), due to the CET1 capital increases and the issuance of €1 billion of qualifying Tier 2 subordinated debt in line with plans to meet the pending Minimum Requirement for Own Funds and Eligible Liabilities (MREL).

Nationwide has been granted permission to report a UK leverage ratio on the basis of measurement announced by the PRA in August 2016. Minimum leverage requirements are monitored by the PRA on this basis. It is calculated using the Capital Requirements Regulation (CRR) definition of Tier 1 for the capital amount and the Delegated Act definition of the exposure measure, excluding eligible central bank reserves.

The UK leverage ratio of 4.9% at 30 September 2017 (4 April 2017: 4.4%) has increased due to profits in the period and an increase in Tier 1 capital resources, following the issuance of CCDS.

The CRR leverage ratio is calculated using the same definition of Tier 1 for the capital amount and the Delegated Act definition of the exposure measure. The CRR leverage ratio also increased to 4.6% (4 April 2017: 4.2%).

Further details on the leverage exposure can be found in the Group's Interim Pillar 3 Disclosure 2017 at **nationwide.co.uk**

Nationwide's latest Pillar 2A Individual Capital Guidance (ICG) was received in August 2017. It equates to circa £2.3 billion, of which at least circa £1.3 billion must be met by CET1 capital, and was broadly in line with the previous ICG. This amount is equivalent to 7.0% of RWAs as at 30 September 2017 (4 April 2017: 6.6%), reflecting the low average risk weight, given that approximately 74% (4 April 2017: 75%) of total assets are in the form of secured residential mortgages, of which 81% (4 April 2017: 81%) are prime.

The table below reconciles the general reserves to total regulatory capital on an end-point basis and so does not include non-qualifying instruments.

Total regulatory capital	30 September 2017 £m	4 April 2017 £m
General reserve	9,805	9,316
Core capital deferred shares (CCDS)	1,325	531
Revaluation reserve	67	67
Available for sale reserve	29	44
Regulatory adjustments and deductions:		
Foreseeable distributions (note i)	(68)	(43)
Prudent valuation adjustment (note ii)	(27)	(23)
Own credit and debit valuation adjustments (note iii)	(1)	-
Intangible assets (note iv)	(1,250)	(1,174)
Goodwill (note iv)	(12)	(12)
Excess of regulatory expected losses over impairment provisions (note v)	(110)	(151)
Total regulatory adjustments and deductions	(1,468)	(1,403)
Common Equity Tier 1 capital	9,758	8,555
Additional Tier 1 capital securities (AT1)	992	992
Total Tier 1 capital	10,750	9,547
Dated subordinated debt (note vi)	3,330	2,555
Collectively assessed impairment allowances	24	27
Tier 2 capital	3,354	2,582
Total regulatory capital	14,104	12,129

Notes:
i. Foreseeable distributions in respect of CCDS and AT1 securities are deducted from CET1 capital under CRD IV.
ii. A prudent valuation adjustment (PVA) is applied in respect of fair valued instruments as required under regulatory capital rules.
iii. Own credit and debit valuation adjustments are applied to remove balance sheet gains or losses of fair valued liabilities and derivatives that result from changes in Nationwide's own credit standing and risk, in accordance with CRD IV rules.
iv. Intangible assets and goodwill do not qualify as capital for regulatory purposes.
v. The net regulatory capital expected loss in excess of accounting impairment provisions is deducted from CET1 capital, gross of tax.
vi. Subordinated debt includes fair value adjustments related to changes in market interest rates, adjustments for unamortised premiums and discounts that are included in the consolidated balance sheet, and any amortisation of the capital value of Tier 2 instruments required by regulatory rules for instruments with fewer than five years to maturity.

Financial risk – Solvency risk (continued)

Tier 2 capital has increased, in line with plans to meet pending MREL requirements, following the issuance of €1 billion of qualifying Tier 2 subordinated debt in July 2017. As part of the Bank Recovery and Resolution Directive (BRRD), the Bank of England, in its capacity as the UK resolution authority, has published its policy for setting the MREL and provided firms with indicative MREL. It is anticipated that Nationwide will be subject to a requirement to hold twice the minimum capital requirements (i.e. 6.5% of UK leverage exposure), plus the applicable buffers, from January 2020. At 30 September 2017 total MREL resources are equal to circa 6.6% of UK leverage ratio exposure (4 April 2017: 5.9% of UK leverage ratio exposure). Nationwide has a strong foundation from which to meet MREL requirements by 2020 through issuance of Tier 2 capital, or, when it becomes available through legislative changes, a senior non-preferred debt instrument.

Detailed information on the key features of the Group's other capital instruments can be found within the Group's Interim Pillar 3 Disclosure at **nationwide.co.uk**

Risk weighted assets

The table below shows the breakdown of risk weighted assets (RWAs) by risk type:

Risk Weighted Assets	30 September 2017 £m	4 April 2017 £m
Credit risk:		
Retail mortgages	13,743	13,863
Retail unsecured lending	5,740	5,641
Commercial loans	5,028	5,636
Treasury	639	849
Counterparty credit risk (note i)	1,515	1,221
Other (note ii)	1,469	1,566
Total credit risk	28,134	28,776
Operational risk (note iii)	4,865	4,865
Market risk (note iv)	-	-
Total risk weighted assets	32,999	33,641

Notes:
i. Relates to derivative financial instruments and repurchase agreements.
ii. Relates to fixed and other assets, including investments in equity shares.
iii. Operational risk RWAs have remained the same as the calculation is carried out annually as at 4 April.
iv. Market risk has been set to zero as permitted by the CRR, as the exposure is below the threshold of 2% of own funds.

RWAs have reduced by £642 million since 4 April 2017 to £32,999 million. Commercial RWAs continue to decrease, driven by the run-off of the commercial book. Treasury RWAs are lower due to a reduction in securitisation exposures. These decreases were offset by higher RWAs for counterparty credit risk due to an increase in exposures through balance sheet hedging activities. Details on how RWAs are calculated can be found in the Group's annual Pillar 3 Disclosure 2017 at **nationwide.co.uk**

Regulatory developments

Whilst there are a number of areas where potential requirements are yet to be finalised, Nationwide will remain engaged in the development of the regulatory approach to ensure it is prepared for any change.

Nationwide is currently required to maintain a minimum leverage ratio of 3.25% following the recalibration to adjust for the impact of excluding central bank holdings from the exposure measure. There is a supplementary leverage ratio buffer of 0.35% to be implemented in 2019. Following the Financial Policy Committee's (FPC) announcement on the countercyclical buffer (June 2018: 0.5%, November 2018: 1%), the equivalent countercyclical leverage ratio buffer will be 0.2% from June 2018, increasing to 0.4% from November 2018. Therefore, the minimum leverage ratio requirement will be 4% by January 2019. Nationwide is confident it is in a strong position to meet the minimum requirements.

The Basel Committee continues to reaffirm its commitment to finalising reforms to the Basel III framework, including the risk weighted assets framework, the leverage ratio framework and the introduction of an output floor (which will prevent IRB risk weights falling below a certain level). The PRA's revised expectations for IRB models for residential mortgages will be effective in 2020. Whilst these amendments are expected to result in an increase in RWAs and therefore a reduction in the CET1 ratio, they are not expected to result in a material increase in Nationwide's overall capital requirements.

During the summer of 2017, the major UK banks and building societies, including Nationwide, took part in the third of the PRA's annual concurrent stress tests; the results are expected on 28 November 2017.

Financial risk (continued)

Pension risk

Nationwide has funding obligations to defined benefit pension schemes, the most significant being the Nationwide Pension Fund (the Fund). Further information is set out in the Annual Report and Accounts 2017.

The retirement benefit obligations which appear within liabilities on the balance sheet, have decreased from £423 million to £262 million. For further information, refer to note 18.

The Fund's accounting deficit has reduced since 4 April 2017, largely due to employer contributions and rises in long-term interest rates. However, the income statement charge for the Fund's current service cost increased to £48m (H1 2016/17: £30m) due to falling corporate bond yields between April 2016 and April 2017 which are used in the calculation of the charge for the year.

Nationwide has undertaken activities which are expected to have a positive long-term impact on the volatility of the Fund's deficit. During the period, the Fund progressed its liability hedging strategy and transacted approximately £140 million of interest rate swaps, along with an additional £130 million investment in index-linked and conventional gilts, to further reduce its exposure to inflation and interest rate risk.

2016 triennial valuation

During the period, the 31 March 2016 triennial valuation of the Fund was finalised, revealing an increased funding deficit of £605 million (31 March 2013: £580 million). The increase in the funding deficit was mainly driven by an increase in liabilities due to falling bond yields over the three-year period to 31 March 2016, partially offset by employer contributions, positive asset performance and the updating of mortality assumptions to reflect recent data. The methods for deriving the main financial assumptions (for example, the discount rate and long term inflation) remain unchanged from the 2013 triennial valuation.

As a result, Nationwide has agreed a deficit recovery plan with the Trustee of the Fund, consisting of £86 million paid during the period (H1 2016/17: £49 million), with annual deficit recovery plan payments of £61 million for each of the next four years, although in certain circumstances the £61 million payments may not be payable.

Deficit recovery contributions are in addition to ongoing contributions to meeting the costs of future benefit accrual. The next triennial valuation has an effective date of 31 March 2019 and is expected to be completed in 2020/21.

Earnings risk

Nationwide ensures that it can generate sustainable profits by focusing on recurrent sources of income that provide value which is commensurate with the risks taken. Earnings risk is defined as the risk that sources of income are unable to continue to add the expected value due to changes in market, regulatory or other environmental factors. This risk is managed and monitored as part of ongoing business performance reporting to senior management and the Board. Further information on the measures used to manage and mitigate earnings risk is available in the Annual Report and Accounts 2017.

Given the ongoing ambiguity surrounding what an orderly exit from the European Union will look like, and wider global political uncertainty, there is an increased risk of volatility in the economic markets in which we operate. In addition, there has been an increase in the level of competition in core mortgage and savings markets. This economic and market context is expected to maintain pressure on Nationwide's ability to generate both trading volumes and margin.

To mitigate against threats to forecast earnings, Nationwide will continue to regularly monitor and review its financial results against forecast in order to understand any deviations from expected performance, and identify any corrective actions required. This will be combined with continuous monitoring of the external environment, to add further context to whether Nationwide is likely to achieve earnings.

Operational risk

Nationwide defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Nationwide's operational risk profile is informed by risk assessments from across the business, and by review and challenge by both management and the oversight functions. Details of the risk profile, environment and outlook are included in the Annual Report and Accounts 2017.

Ensuring that the increasing expectations of an "always on" digital operation are met is a key area of focus for Nationwide. The Society is also committed to make it easier for members to transact through a range of channels. The scale and pace of change required to achieve these aims, with the implementation of new systems and upgrading of infrastructures and processes, alongside the maintenance of legacy systems, can create delivery challenges. Such challenges introduce an additional level of operational complexity and is viewed as a key operational risk.

These challenges have the potential to disrupt Nationwide's operating environment and negatively impact the service experienced by customers. Nationwide manages the operational risks of this through a strong focus on service management, transformation governance and programme management disciplines. Nationwide continues to invest in a dedicated Operational Resilience Function that strives to ensure it meets customer expectations for service levels associated with both internal and externally sourced IT and operations.

Cyber threats also continue to evolve in maturity and sophistication. We actively monitor cyber threats and work closely with partners to ensure systems continue to be resilient and customers remain protected from the impact of any attacks. In the last six months there have been several global, high profile attacks. Whilst the WannaCry and NotPetya ransomware attacks did not directly affect Nationwide, they reinforce the need for continued vigilance. Nationwide's security controls have needed to keep pace to prevent, detect and respond to any threats or attacks like these.

The threat posed by cyber-attacks directly impacts the existing risks associated with external fraud, data loss, data integrity and availability. Nationwide recognises the negative impact a successful cyber-attack could have on these and ultimately its customers. As a result, Nationwide continues to focus significant effort on discharging its cyber-risk management responsibilities with ongoing investment in appropriate technology and ensuring that it's cyber-security framework is designed to manage cyber-risk effectively.

Conduct and compliance risk

Nationwide defines conduct and compliance risk as the risk of exercising inappropriate judgements or making errors in the execution of its business activities, leading to non-compliance with regulation or legislation, market integrity being undermined, or an unfair outcome being created for members and customers.

There have been no significant changes in the way Nationwide manages and monitors its conduct and compliance risks nor are any expected for the remaining six months of the financial year. Further detail on these risks and how they are managed is available in the Annual Report and Accounts 2017.

During the period, Nationwide continued to focus on delivering fair customer outcomes to its members, embedding conduct risk management, improving frameworks and guidance to support potentially vulnerable customers, and interpreting and implementing regulatory obligations.

During the period, the FCA commenced its new Payment Protection Insurance (PPI) awareness campaign, urging policy holders to make a decision on whether to make a PPI complaint before the deadline of 29 August 2019. Nationwide continues its programme of activity to respond to an expected increase in complaints arising from the campaign, and to address the specific new requirements implemented by the FCA in response to the Supreme Court ruling on 'Plevin v Paragon Personal Finance Ltd' ('Plevin'). These requirements apply to PPI cases where there were high levels of commission that were not disclosed at the point of sale. Details of PPI redress are provided in note 16.

The FCA has announced a strategic review of business models in the retail banking sector. It aims to identify any potential conduct or competition issues, understand how free-if-in-credit banking is paid for, understand the impact of changes such as increased use of digital channels and reduced branch usage on business models and consider potential consequences for its consumer protection and competition objectives. An update is expected in H1 2018/19 explaining the preliminary analysis and conclusions. Nationwide will continue to engage with the regulator to better understand the impact, if any, this review will have for the Society.

Consolidated interim financial statements

Contents

Consolidated income statement
(Unaudited)

	Notes	Half year to 30 September 2017 £m	Half year to 30 September 2016 £m
Interest receivable and similar income	3	2,347	2,576
Interest expense and similar charges	4	(833)	(1,127)
Net interest income		1,514	1,449
Fee and commission income		214	204
Fee and commission expense		(120)	(108)
Other operating income	5	31	97
Gains from derivatives and hedge accounting	6	36	77
Total income		1,675	1,719
Administrative expenses	7	(966)	(938)
Impairment losses on loans and advances to customers	8	(59)	(32)
Impairment losses on investment securities		-	(5)
Provisions for liabilities and charges	16	(22)	(48)
Profit before tax		628	696
Taxation	9	(157)	(194)
Profit after tax		471	502

The notes on pages 52 to 71 form an integral part of these consolidated interim financial statements.

Consolidated statement of comprehensive income
(Unaudited)

	Notes	Half year to 30 September 2017 £m	Half year to 30 September 2016 £m
Profit after tax		471	502
Other comprehensive income/(expense):			
Items that will not be reclassified to the income statement			
Remeasurements of retirement benefit obligations:			
Retirement benefit remeasurements before tax	18	97	(552)
Taxation		(26)	147
		71	(405)
Revaluation of property:			
Adjustments to taxation in respect of prior periods		-	3
		71	(402)
Items that may subsequently be reclassified to the income statement			
Cash flow hedge reserve:			
Fair value movements taken to members' interests and equity		(373)	2,669
Amount transferred to income statement		219	(2,264)
Taxation		40	(95)
	6	(114)	310
Available for sale reserve:			
Fair value movements taken to members' interests and equity		27	95
Amount transferred to income statement		(47)	(112)
Taxation		5	5
		(15)	(12)
Other comprehensive expense		(58)	(104)
Total comprehensive income		413	398

The notes on pages 52 to 71 form an integral part of these consolidated interim financial statements.

Consolidated balance sheet
(Unaudited)

	Notes	30 September 2017 £m	4 April 2017 £m
Assets			
Cash		15,302	13,017
Loans and advances to banks		3,009	2,587
Investment securities		10,788	9,764
Derivative financial instruments		5,066	5,043
Fair value adjustment for portfolio hedged risk		191	746
Loans and advances to customers	10	190,666	187,371
Investments in equity shares		41	67
Intangible assets		1,300	1,230
Property, plant and equipment		841	851
Investment properties		8	8
Accrued income and expenses prepaid		173	191
Deferred tax		67	103
Other assets		76	692
Total assets		227,528	221,670
Liabilities			
Shares		146,384	144,542
Deposits from banks		12,766	8,734
Other deposits		6,726	6,459
Due to customers		548	2,376
Fair value adjustment for portfolio hedged risk		(25)	8
Debt securities in issue		40,491	40,339
Derivative financial instruments		2,549	3,182
Other liabilities		728	391
Provisions for liabilities and charges	16	313	387
Accruals and deferred income		311	333
Subordinated liabilities	11	3,733	2,905
Subscribed capital	11	265	276
Deferred tax		66	100
Current tax liabilities		124	82
Retirement benefit obligations	18	262	423
Total liabilities		215,241	210,537
Members' interests and equity			
Core capital deferred shares	19	1,325	531
Other equity instruments	20	992	992
General reserve		9,805	9,316
Revaluation reserve		67	67
Cash flow hedge reserve		69	183
Available for sale reserve		29	44
Total members' interests and equity		12,287	11,133
Total members' interests, equity and liabilities		227,528	221,670

The notes on pages 52 to 71 form an integral part of these consolidated interim financial statements.

Consolidated statement of movements in members' interests and equity
For the period ended 30 September 2017
(Unaudited)

	Core capital deferred shares £m	Other equity instruments £m	General reserve £m	Revaluation reserve £m	Cash flow hedge reserve £m	Available for sale reserve £m	Total £m
At 5 April 2017	531	992	9,316	67	183	44	11,133
Profit for the period	-	-	471	-	-	-	471
Net remeasurements of retirement benefit obligations	-	-	71	-	-	-	71
Net movement in cash flow hedge reserve	-	-	-	-	(114)	-	(114)
Net movement in available for sale reserve	-	-	-	-	-	(15)	(15)
Total comprehensive income	-	-	542	-	(114)	(15)	413
Issue of core capital deferred shares	794	-	-	-	-	-	794
Distribution to the holders of core capital deferred shares	-	-	(28)	-	-	-	(28)
Distribution to the holders of Additional Tier 1 capital (note i)	-	-	(25)	-	-	-	(25)
At 30 September 2017	1,325	992	9,805	67	69	29	12,287

For the period ended 30 September 2016
(Unaudited)

	Core capital deferred shares £m	Other equity instruments £m	General reserve £m	Revaluation reserve £m	Cash flow hedge reserve £m	Available for sale reserve £m	Total £m
At 5 April 2016	531	992	8,921	64	430	(8)	10,930
Profit for the period	-	-	502	-	-	-	502
Net remeasurements of retirement benefit obligations	-	-	(405)	-	-	-	(405)
Net revaluation of property	-	-	-	3	-	-	3
Net movement in cash flow hedge reserve	-	-	-	-	310	-	310
Net movement in available for sale reserve	-	-	-	-	-	(12)	(12)
Total comprehensive income	-	-	97	3	310	(12)	398
Distribution to the holders of core capital deferred shares	-	-	(28)	-	-	-	(28)
Distribution to the holders of Additional Tier 1 capital (note i)	-	-	(25)	-	-	-	(25)
At 30 September 2016	531	992	8,965	67	740	(20)	11,275

Note:
i. The distribution to the holders of Additional Tier 1 capital is shown net of an associated tax credit of £9 million (H1 2016/17: £9 million).

The notes on pages 52 to 71 form an integral part of these consolidated interim financial statements.

Consolidated cash flow statement
(Unaudited)

	Notes	Half year to 30 September 2017 £m	Half year to 30 September 2016 £m
Cash flows generated from/(used in) operating activities			
Profit before tax		628	696
Adjustments for:			
Non-cash items included in profit before tax	22	179	95
Changes in operating assets and liabilities	22	1,816	610
Interest paid on subordinated liabilities		(64)	(40)
Interest paid on subscribed capital		(7)	(11)
Taxation		(86)	(133)
Net cash flows generated from operating activities		2,466	1,217
Cash flows (used in)/generated from investing activities			
Purchase of investment securities		(3,818)	(2,336)
Sale and maturity of investment securities		2,633	3,713
Purchase of property, plant and equipment		(59)	(96)
Sale of property, plant and equipment		5	4
Purchase of intangible assets		(184)	(139)
Net cash flows (used in)/generated from investing activities		(1,423)	1,146
Cash flows generated from/(used in) financing activities			
Issue of core capital deferred shares		794	-
Distributions paid to the holders of core capital deferred shares		(28)	(28)
Distributions paid to the holders of Additional Tier 1 capital		(34)	(34)
Issue of debt securities		11,158	15,704
Redemption of debt securities in issue		(11,077)	(10,825)
Issue of subordinated liabilities		868	949
Net cash flows generated from financing activities		1,681	5,766
Net increase in cash and cash equivalents		2,724	8,129
Cash and cash equivalents at start of period		15,243	12,063
Cash and cash equivalents at end of period	22	17,967	20,192

The notes on pages 52 to 71 form an integral part of these consolidated interim financial statements.

Notes to the consolidated interim financial statements

1 General information and reporting period

Nationwide Building Society ('the Society') and its subsidiaries (together, 'the Group') provide financial services to retail and commercial customers within the United Kingdom.

Nationwide is a building society incorporated and domiciled in the United Kingdom. The address of its registered office is Nationwide Building Society, Nationwide House, Pipers Way, Swindon, Wiltshire SN38 1NW.

There were no material changes in the composition of the Group in the half year to 30 September 2017.

These condensed consolidated interim financial statements ('consolidated interim financial statements') have been prepared as at 30 September 2017 and show the financial performance for the period from, and including, 5 April 2017 to this date. They were approved for issue on 16 November 2017.

These consolidated interim financial statements have been reviewed, not audited.

2 Basis of preparation

The consolidated interim financial statements of the Group for the half year ended 30 September 2017 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with International Accounting Standard (IAS) 34 'Interim Financial Reporting'. The consolidated interim financial statements should be read in conjunction with the Group's annual financial statements for the year ended 4 April 2017, which were prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Terminology used in these consolidated interim financial statements is consistent with that used in the Annual Report and Accounts 2017, where a full glossary of terms can be found.

Copies of the Annual Report and Accounts 2017 are available on the Group's website at **nationwide.co.uk**

Accounting policies

The accounting policies adopted by the Group in the preparation of these consolidated interim financial statements and those which the Group currently expects to adopt in the Annual Report and Accounts 2018 are consistent with those disclosed in the Annual Report and Accounts 2017, except for an update to the segmental reporting policy.

In line with the Group's decision to wind down its commercial lending business, and the strategic review outlined in the Annual Report and Accounts 2017, the segmental reporting policy has been updated to better reflect the way in which the chief operating decision maker now manages the business. The updated policy states:

- The Group's Executive Committee is responsible for allocating resources and assessing the performance of the business and is therefore identified as the chief operating decision maker.

- The Group has determined that it has one reportable segment as the Executive Committee reviews performance and makes decisions based on the Group as whole. No segmental analysis is required on geographical lines as substantially all of the Group's activities are in the United Kingdom. As a result, no additional segmental disclosure is provided.

Standards and amendments applied during the half year to 30 September 2017

There were no new standards applied during the half year to 30 September 2017.

A number of amendments and improvements to accounting standards have been issued by the IASB with an effective date of 1 January 2017. Those relevant to these consolidated interim financial statements, being minor amendments to IAS 12 'Income Taxes', together with certain of the annual improvements to the IFRSs 2014-2016 cycle, were adopted with no significant impact for the Group.

Future accounting developments

An overview of pronouncements that will be relevant to the Group in future periods was provided in the Annual Report and Accounts 2017. Of these pronouncements the most significant is IFRS 9 'Financial Instruments', an update on which is included below.

Notes to the consolidated interim financial statements (continued)

2 Basis of preparation (continued)

IFRS 9 'Financial Instruments'

IFRS 9 will be implemented in the financial statements for year ending 4 April 2019 and will replace IAS 39 'Financial Instruments: Recognition and Measurement'. The requirements are outlined in the Annual Report and Accounts 2017.

Implementation update

In the first half of the year, we have completed the development of our core models and systems, and commenced a period of dual running of our IFRS 9 processes in advance of implementation. In the second half of the year we will continue to refine our models and conclude our work in respect of the sensitivity of models to different economic conditions.

Responsibilities and accountabilities

The Group has an established IFRS 9 implementation programme with formal governance reporting to the Chief Financial Officer and Chief Risk Officer. Progress is reported regularly to the Audit Committee. This includes formal oversight of the new IFRS 9 ECL calculations ahead of the application of the new accounting policy from 5 April 2018.

Impact of IFRS 9

It is currently estimated that the CET1 ratio impact of IFRS 9 on transition at 5 April 2018 will be a reduction of between 10 and 40 basis points. The equivalent UK leverage ratio impact is estimated as a reduction of between 0 and 4 basis points. As a result, IFRS 9 is not expected to have a significant impact on the Group's capital position. The impact results primarily from increased impairment provisions, but also includes the estimated impact of the classification and measurement requirements of IFRS 9. It includes an offset against regulatory expected losses, and excludes any transitional arrangements for capital purposes. The actual impact on transition could be different as a result of changes in the balance sheet, economic conditions and forward-looking economic assumptions, as well as ongoing refinement of models.

The Group does not expect to restate comparatives on the initial adoption of IFRS 9 but will provide detailed transitional disclosures.

Judgements in applying accounting policies and critical accounting estimates

The Group has to make judgements in applying its accounting policies which affect the amounts recognised in these consolidated interim financial statements. In addition, estimates and assumptions are made that could affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates.

There have been no changes to the areas of significant judgement and estimate from those disclosed in the Annual Report and Accounts 2017 which comprised:

- impairment provisions on loans and advances
- provisions for customer redress
- retirement benefit obligations (pensions).

Going concern

The Group's business activities and financial position, the factors likely to affect its future development and performance, its objectives and policies in managing the financial risks to which it is exposed, and its capital, funding and liquidity positions are discussed in the Business and risk report.

In the light of current and anticipated economic conditions, the directors have assessed the Group's ability to continue as a going concern. The directors confirm they are satisfied that the Group has adequate resources to continue in business and that it is therefore appropriate to adopt the going concern basis in preparing these consolidated interim financial statements.

Notes to the consolidated interim financial statements (continued)

3 Interest receivable and similar income

	Half year to 30 September 2017 £m	Half year to 30 September 2016 £m
On residential mortgages	2,258	2,454
On other loans	361	381
On investment securities	101	262
On other liquid assets	33	27
Net expense on financial instruments hedging assets	(406)	(548)
Total	2,347	2,576

Included within interest receivable and similar income is interest income on impaired financial assets of £14 million (H1 2016/17: £17 million).

4 Interest expense and similar charges

	Half year to 30 September 2017 £m	Half year to 30 September 2016 £m
On shares held by individuals	538	755
On subscribed capital	7	24
On deposits and other borrowings:		
Subordinated liabilities	74	54
Other	227	315
On debt securities in issue	354	385
Net income on financial instruments hedging liabilities	(371)	(409)
Interest on net defined benefit pension liability (note 18)	4	3
Total	833	1,127

Interest on deposits and other borrowings includes an expense of £184 million (H1 2016/17: £247 million) in relation to the redemption and maturity of Protected Equity Bond (PEB) deposits which have returns linked to the performance of specified stock market indices. The PEBs are economically hedged using equity-linked derivatives. Net income on financial instruments hedging liabilities includes income of £180 million (H1 2016/17: £235 million) in relation to the associated derivatives. Further details are included in note 13.

5 Other operating income

	Half year to 30 September 2017 £m	Half year to 30 September 2016 £m
Gains on disposal of investments	26	100
Other income/(expense)	5	(3)
Total	31	97

On 28 April 2017, the Group disposed of shares in VocaLink Holdings Limited, resulting in a gain on disposal of £26 million. On 21 June 2016, the Group disposed of its share in Visa Europe Limited, resulting in a gain on disposal of £100 million.

Other income/(expense) includes rental income, profits or losses on the sale of property, plant and equipment and increases or decreases in the valuations of branches and non-specialised buildings which are not recognised in other comprehensive income.

Notes to the consolidated interim financial statements (continued)

6 Gains from derivatives and hedge accounting

The Group only uses derivatives for the hedging of risks, however income statement volatility can still arise due to hedge accounting ineffectiveness or because hedge accounting is either not currently applied or is not currently achievable. The overall impact of derivatives will remain volatile from period to period as new derivative transactions replace those which mature to ensure that interest rate and other market risks are continually managed. This volatility does not reflect the economic reality of the Group's hedging strategy.

Gains from derivatives and hedge accounting	Half year to 30 September 2017 £m	Half year to 30 September 2016 £m
Ineffectiveness from fair value hedge accounting (note i)	(32)	58
Ineffectiveness from cash flow hedge accounting (note ii)	58	5
Net gain from mortgage pipeline (note iii)	22	8
Fair value losses from other derivatives (note iv)	(3)	(17)
Foreign exchange retranslation (note v)	(9)	23
Total	36	77

Notes:

i. Gains or losses from fair value hedges can arise where there is an IFRS hedge accounting relationship in place and either:
   - the relationship passed all the monthly effectiveness tests but the fair value movement of the derivative was not exactly offset by the change in fair value of the asset or liability being hedged (referred to as hedge ineffectiveness); or
   - the relationship failed a monthly effectiveness test which, for that month, disallows recognition of the change in fair value of the underlying asset or liability being hedged and in following months leads to the amortisation of existing balance sheet positions.

ii. In cash flow hedge accounting the effective portion of the fair value movement of designated derivatives is deferred to the cash flow hedge reserve. The fair value movement is subsequently recycled to the income statement when amounts relating to the underlying hedged asset or liability are recognised in the income statement. The ineffective portion of the fair value movement is recognised immediately in the income statement.

iii. The mortgage pipeline in the above table includes interest rate swaps used to economically hedge expected new mortgage business, as well as some firm mortgage commitments which the Group has elected to fair value in order to reduce the accounting mismatch.

iv. Other derivatives are those used for economic hedging but which are not in an IAS 39 hedge accounting relationship because hedge accounting is not currently in place.

v. Gains or losses arise from the retranslation of foreign currency monetary items not subject to effective hedge accounting.

The deferral of fair value movements to the cash flow hedge reserve, and the transfer of amounts from the cash flow hedge reserve to the income statement, are shown in the consolidated statement of comprehensive income. The net transfer after taxation of £114 million (H1 2016/17: net deferral after taxation of £310 million) is driven by changes in derivative valuations caused by movements in interest rates and foreign exchange rates.

7 Administrative expenses

	Half year to 30 September 2017 £m	Half year to 30 September 2016 £m
Employee costs:		
Wages, salaries and bonuses	290	289
Social security costs	31	31
Pension costs	86	68
	407	388
Other administrative expenses	367	375
	774	763
Depreciation, amortisation and impairment	192	175
Total	966	938

Notes to the consolidated interim financial statements (continued)

8 Impairment losses on loans and advances to customers

The following tables set out impairment losses and reversals during the period and the closing provision balances which are deducted from the appropriate asset values in the balance sheet:

	Half year to 30 September 2017 £m	Half year to 30 September 2016 £m
Impairment losses/(reversals) for the period		
Prime residential	4	1
Specialist residential	8	4
Consumer banking	52	32
Commercial lending	(5)	(5)
Total	59	32

	30 September 2017 £m	4 April 2017 £m
Impairment provision at the end of the period		
Prime residential	37	34
Specialist residential	113	110
Consumer banking	282	269
Commercial lending	23	25
Total	455	438

The Group impairment provision of £455 million at 30 September 2017 (4 April 2017: £438 million) comprises individual provisions of £42 million (4 April 2017: £45 million) and collective provisions of £413 million (4 April 2017: £393 million). Further credit risk information on loans and advances to customers is included in the 'Lending risk' section of the Business and risk report.

9 Taxation

Tax charge in the income statement	Half year to 30 September 2017 £m	Half year to 30 September 2016 £m
Current tax:		
UK corporation tax	150	223
Total current tax	150	223
Deferred tax:		
Current period charge/(credit)	7	(30)
Adjustments in respect of prior periods	-	1
Total deferred tax	7	(29)
Tax charge	157	194

The actual tax charge differs from the theoretical amount that would arise using the standard rate of corporation tax in the UK as follows:

Reconciliation of tax charge	Half year to 30 September 2017 £m	Half year to 30 September 2016 £m
Profit before tax	628	696
Tax calculated at a tax rate of 19% (2016 20%)	119	139
Banking surcharge	33	40
Expenses not deductible for tax purposes	5	14
Adjustments in respect of prior periods	-	1
Tax charge	157	194

The Finance (No. 2) Act 2015 introduced a surcharge of 8% on banking profits from 1 January 2016 and reduced the corporation tax rate from 20% to 19% with effect from 1 April 2017. The Finance Act 2016 was enacted on 15 September 2016 and reduces the corporation tax rate from 19% to 17% from 1 April 2020.

Notes to the consolidated interim financial statements (continued)

10 Loans and advances to customers

	30 September 2017 £m	4 April 2017 £m
Prime residential mortgages	142,101	137,970
Specialist residential mortgages	33,011	33,149
Consumer banking	3,729	3,680
Commercial lending	10,577	11,185
Other lending	76	17
	189,494	186,001
Fair value adjustment for micro hedged risk	1,172	1,370
Total	190,666	187,371

Loans and advances to customers in the table above are shown net of impairment provisions held against them. The fair value adjustment for micro hedged risk relates to commercial lending.

Asset backed funding

Certain prime residential mortgages have been pledged to the Group's asset backed funding programmes or utilised as whole mortgage loan pools for the Bank of England's (BoE) Funding for Lending Scheme (FLS) and Term Funding Scheme (TFS). The programmes have enabled the Group to obtain secured funding or to create additional collateral which could be used to source additional funding.

Mortgages pledged and the nominal values of the notes in issue are as follows:

Mortgages pledged to asset backed funding programmes

	Mortgages pledged	Notes in issue			
		Held by third parties	Held by the Group		Total notes in issue
			Drawn	Undrawn	
30 September 2017	£m	£m	£m	£m	£m
Covered bond programme	19,494	15,372	-	-	15,372
Securitisation programme	9,577	2,938	-	337	3,275
Whole mortgage loan pools	18,932	-	16,246	2,686	18,932
Total	48,003	18,310	16,246	3,023	37,579
4 April 2017					
Covered bond programme	19,322	14,927	-	-	14,927
Securitisation programme	10,412	3,622	-	448	4,070
Whole mortgage loan pools	16,136	-	13,505	2,631	16,136
Total	45,870	18,549	13,505	3,079	35,133

The securitisation programme notes are issued by Silverstone Master Issuer plc which is fully consolidated by the Group.

The whole mortgage loan pools are pledged at the BoE under the FLS and TFS. Notes are not issued when pledging the mortgage loan pools at the BoE. Instead, the whole loan pool is pledged to the BoE and drawings are made directly against the eligible collateral, subject to a haircut. Therefore, values shown under notes in issue are the whole mortgage loan pool notional balances.

Mortgages pledged include £8.7 billion (4 April 2017: £9.1 billion) in the covered bond and securitisation programmes that are in excess of the amount contractually required to support notes in issue.

Notes to the consolidated interim financial statements (continued)

10 Loans and advances to customers (continued)

Mortgages pledged are not derecognised from the balance sheet as the Group has retained substantially all the risks and rewards of ownership. The Group continues to be exposed to the liquidity risk, interest rate risk and credit risk of the mortgages. No gain or loss has been recognised on pledging the mortgages to the programmes.

Notes in issue which are held by third parties are included within debt securities in issue.

Notes in issue, held by the Group and drawn are whole mortgage loan pools securing amounts drawn under the FLS and TFS. At 30 September 2017 the Group had outstanding FLS drawings of £3.0 billion (4 April 2017: £4.8 billion) and TFS drawings of £9.5 billion (4 April 2017: £6.0 billion).

Notes in issue, held by the Group and undrawn, are debt securities issued by the programmes to the Society and mortgage loan pools that have been pledged to the BoE but not utilised.

In accordance with accounting standards, notes in issue and held by the Group are not recognised by the Group in its balance sheet.

The Group established the Nationwide Covered Bond programme in November 2005. Mortgages pledged provide security for issues of covered bonds made by the Group. During the period ended 30 September 2017, €1.0 billion (£0.9 billion sterling equivalent) of notes were issued, and £0.8 billion of notes matured.

The Group established the Silverstone Master Trust securitisation programme in July 2008. Notes are issued under the programme and the issuance proceeds are used to purchase, for the benefit of note holders, a share of the beneficial interest in the mortgages pledged by the Group. The remaining beneficial interest in the pledged mortgages of £6.7 billion (4 April 2017: £7.0 billion) stays with the Group and includes its required minimum seller share in accordance with the rules of the programme. The Group is under no obligation to support losses incurred by the programme or holders of the notes and does not intend to provide such further support. The entitlement of note holders is restricted to payment of principal and interest to the extent that the resources of the programme are sufficient to support such payment and the holders of the notes have agreed not to seek recourse in any other form. During the period ended 30 September 2017, £0.3 billion and $0.5 billion (total £0.7 billion sterling equivalent) of notes matured and no notes were issued.

11 Subordinated liabilities and subscribed capital

	30 September 2017 £m	4 April 2017 £m
Subordinated liabilities		
Subordinated notes	3,708	2,871
Fair value hedge accounting adjustments	42	45
Unamortised premiums and issue costs	(17)	(11)
Total	3,733	2,905
Subscribed capital		
Permanent interest bearing shares	222	222
Fair value hedge accounting adjustments	46	57
Unamortised premiums and issue costs	(3)	(3)
Total	265	276

On 25 July 2017 the Group issued €1.0 billion of subordinated notes and on 1 September 2017 the Group redeemed £30 million of subordinated notes at par.

All of the Group's subordinated notes and permanent interest bearing shares (PIBS) are unsecured. The Group may, with the prior consent of the Prudential Regulation Authority (PRA), repay the PIBS and redeem the subordinated notes early.

The subordinated notes rank pari passu with each other and behind claims against the Society of all depositors, creditors and investing members, other than the holders of PIBS, Additional Tier 1 (AT1) capital and core capital deferred shares (CCDS).

The PIBS rank pari passu with each other and the AT1 instruments, behind claims against the Society of the subordinated noteholders, depositors, creditors and investing members but ahead of claims by the holders of CCDS.

Notes to the consolidated interim financial statements (continued)

12 Fair value hierarchy of financial assets and liabilities held at fair value

IFRS 13 requires an entity to classify assets and liabilities held at fair value, and those not measured at fair value but for which the fair value is disclosed, according to a hierarchy that reflects the significance of observable market inputs in calculating those fair values. The three levels of the fair value hierarchy are defined in note 1 of the Annual Report and Accounts 2017.

Further details of those financial assets and liabilities not measured at fair value are included in note 14.

The following tables show the Group's financial assets and liabilities that are held at fair value by fair value hierarchy, balance sheet classification and product type:

	Fair values based on			
30 September 2017	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Government and supranational investments	7,085	-	-	7,085
Other debt investment securities	983	1,545	-	2,528
Investment securities (note i)	8,068	1,545	-	9,613
Investments in equity shares (note ii)	-	-	40	40
Interest rate swaps	-	1,796	-	1,796
Cross currency interest rate swaps	-	3,182	-	3,182
Forward foreign exchange	-	6	-	6
Equity index swaps	-	-	59	59
Index linked swaps	-	23	-	23
Total derivative financial instruments	-	5,007	59	5,066
Financial assets	8,068	6,552	99	14,719
Financial liabilities				
Interest rate swaps	-	(2,353)	(5)	(2,358)
Cross currency interest rate swaps	-	(106)	-	(106)
Forward foreign exchange	-	(80)	-	(80)
Swaptions	-	(5)	-	(5)
Total derivative financial instruments	-	(2,544)	(5)	(2,549)
Other deposits - PEBs (note iii)	-	-	(192)	(192)
Other financial liabilities (note iv)	-	(9)	-	(9)
Total financial liabilities	-	(2,553)	(197)	(2,750)

Notes to the consolidated interim financial statements (continued)

12 Fair value hierarchy of financial assets and liabilities held at fair value (continued)

	Fair values based on			
4 April 2017	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Government and supranational investments	6,897	-	-	6,897
Other debt investment securities	931	1,936	-	2,867
Investment securities (note i)	7,828	1,936	-	9,764
Investments in equity shares (note ii)	-	-	66	66
Interest rate swaps	-	1,859	-	1,859
Cross currency interest rate swaps	-	2,915	-	2,915
Forward foreign exchange	-	16	-	16
Equity index swaps	-	-	233	233
Index linked swaps	-	20	-	20
Total derivative financial instruments	-	4,810	233	5,043
Other financial assets (note iv)	-	7	-	7
Total financial assets	7,828	6,753	299	14,880
Financial liabilities				
Interest rate swaps	-	(3,096)	(5)	(3,101)
Cross currency interest rate swaps	-	(71)	-	(71)
Forward foreign exchange	-	(4)	-	(4)
Forward rate agreements	-	(1)	-	(1)
Swaptions	-	(5)	-	(5)
Total derivative financial instruments	-	(3,177)	(5)	(3,182)
Other deposits - PEBs (note iii)	-	-	(810)	(810)
Total financial liabilities	-	(3,177)	(815)	(3,992)

Notes:
i. Investment securities held at fair value exclude £1,175 million (4 April 2017: £nil) of held to maturity investment securities. Further details are included in note 14.
ii. Investments in equity shares exclude £1 million (4 April 2017: £1 million) of investments in equity shares which are held at cost.
iii. Other deposits comprise PEBs which are held at fair value through the income statement. The remaining other deposits are held at amortised cost and are included in note 14.
iv. Other financial assets and other financial liabilities represent the fair value of certain mortgage commitments.

The Group's Level 1 portfolio comprises highly rated government securities for which traded prices are readily available.

Asset valuations for Level 2 investment securities are sourced from consensus pricing or other observable market prices. None of the Level 2 assets are valued from models. Level 2 derivative assets and liabilities are valued from discounted cash flow models using yield curves based on observable market data.

Further detail on the Level 3 portfolio is provided in note 13.

Transfers between fair value hierarchies

Instruments move between fair value hierarchies primarily due to increases or decreases in market activity or changes to the significance of unobservable inputs to their valuation. There were no significant transfers between the Level 1, Level 2 and Level 3 portfolios during the period.

Notes to the consolidated interim financial statements (continued)

13 Fair value of financial assets and liabilities held at fair value – Level 3 portfolio

The main constituents of the Level 3 portfolio are as follows:

Investments in equity shares

The Level 3 investments in equity shares include investments of £40 million (4 April 2017: £66 million) in industry-wide banking and credit card service operations.

Derivative financial instruments

Level 3 assets and liabilities in this category are primarily equity linked derivatives with external counterparties which economically match the investment return payable by the Group to investors in Protected Equity Bonds (PEBs). The derivatives are linked to the performance of specified stock market indices and have been valued by an external third party. Fair value changes are recognised within gains/losses from derivatives and hedge accounting. Upon maturity the gain/loss is transferred to interest expense and similar charges.

Other deposits – PEBs

This category relates to deposit accounts with the potential for stock market correlated growth linked to the performance of specified stock market indices. The PEBs liability of £192 million (4 April 2017: £810 million) is valued at a discount to reflect the time value of money, overlaid by a fair value adjustment representing the expected return payable to the customer. The fair value adjustment has been constructed from the valuation of the associated derivatives as valued by an external third party. Fair value changes are recognised within gains/losses from derivatives and hedge accounting. Upon maturity the gain/loss is transferred to interest expense and similar charges.

The minimum amount on an undiscounted basis that the Group is contractually required to pay at maturity for the PEBs is £133 million (4 April 2017: £621 million). The maximum additional amount which would also be payable at maturity in respect of additional investment returns is £71 million (4 April 2017: £250 million). The payment of additional investment returns is dependent upon performance of certain specified stock indices during the period of the PEBs. As noted above, the Group has entered into equity linked derivatives with external counterparties which economically match the investment returns on the PEBs.

Notes to the consolidated interim financial statements (continued)

13 Fair value of financial assets and liabilities held at fair value – Level 3 portfolio (continued)

The tables below set out movements in the Level 3 portfolio:

Movements in Level 3 portfolio	Investments in equity shares £m	Net derivative financial instruments £m	Other deposits PEBs £m
At 5 April 2017	66	228	(810)
Gains/(losses) recognised in the income statement:			
Net interest income/(expense)	-	180	(184)
(Losses)/gains from derivatives and hedge accounting	-	(175)	174
Other operating income	26	-	-
Losses recognised in other comprehensive income:			
Fair value movement taken to members' interests and equity	(22)	-	-
Settlements	-	(179)	628
Disposals	(30)	-	-
At 30 September 2017	**40**	**54**	**(192)**

At 5 April 2016	125	431	(1,885)
Gains/(losses) recognised in the income statement:			
Net interest income/(expense)	-	235	(247)
(Losses)/gains from derivatives and hedge accounting	-	(171)	169
Other operating income	100	-	-
Losses recognised in other comprehensive income:			
Fair value movement taken to members' interests and equity	(76)	-	-
Settlements	-	(233)	830
Acquisitions	25	-	-
Disposals	(118)	-	-
At 30 September 2016	56	262	(1,133)

Level 3 portfolio sensitivity analysis of valuations using unobservable inputs

The fair value of financial instruments is, in certain circumstances, measured using valuation techniques based on market prices that are not observable in an active market or on significant unobservable market inputs.

Reasonable alternative assumptions can be applied for sensitivity analysis, taking account of the nature of valuation techniques used, as well as the availability and reliability of observable proxy and historic data. The following table shows the sensitivity of the Level 3 fair values to reasonable alternative assumptions (as set out in the table of significant unobservable inputs below) and the resultant impact of such changes in fair value on the income statement or members' interests and equity:

Sensitivity of Level 3 fair values		Members' interests and equity	
30 September 2017	**Fair value £m**	**Favourable changes £m**	**Unfavourable changes £m**
Investments in equity shares	40	12	(27)
Net derivative financial instruments (note i)	54	-	-
Other deposits – PEBs (note i)	(192)	-	-
Total	**(98)**	**12**	**(27)**
4 April 2017			
Investments in equity shares	66	12	(24)
Net derivative financial instruments (note i)	228	-	-
Other deposits – PEBs (note i)	(810)	-	-
Total	(516)	12	(24)

Note:
i. Changes in fair values of the equity index swaps included in net derivative financial instruments will be largely offset by the change in fair value of the PEBs deposits. Any resultant impact is deemed by the Group to be insignificant; therefore these sensitivities have been excluded from the table above.

Notes to the consolidated interim financial statements (continued)

13 Fair value of financial assets and liabilities held at fair value – Level 3 portfolio (continued)

Investments in equity shares of £40 million (4 April 2017: £66 million) are accounted for as available for sale assets. The Level 3 portfolio at 30 September 2017 did not include any impaired assets (4 April 2017: £nil) and as such the sensitivity analysis in the table above does not impact the income statement.

Alternative assumptions are considered for each product and varied according to the quality of the data and variability of the underlying market.

The following table discloses the significant unobservable inputs underlying the above alternative assumptions for assets and liabilities recognised at fair value and classified as Level 3, along with the range of values for those significant unobservable inputs. Where sensitivities are described the inverse relationship will also generally apply:

Significant unobservable inputs

30 September 2017	Total assets £m	Total liabilities £m	Valuation technique	Significant unobservable inputs	Range (note ii)		Weighted average (note iii)	Units
Investments in equity shares	40	-	Discounted cash flows	Discount rate	10.00	12.00	11.00	%
				Share conversion	-	100.00	77.76	%
Net derivative financial instruments (note i)	54	-						
Other deposits – PEBs (note i)	-	(192)						

4 April 2017	Total assets £m	Total liabilities £m	Valuation technique	Significant unobservable inputs	Range (note ii)		Weighted average (note iii)	Units
Investments in equity shares	66	-	Discounted cash flows	Discount rate	6.41	7.75	7.08	%
				Share conversion	-	100.00	77.76	%
Net derivative financial instruments (note i)	228	-						
Other deposits – PEBs (note i)	-	(810)						

Notes:

i. Changes in fair values of the equity index swaps included in net derivative financial instruments will be largely offset by the change in fair value of the PEBs deposits. Any resultant impact is deemed by the Group to be insignificant; therefore these sensitivities have been excluded from the table above.

ii. The range represents the values of the highest and lowest levels used in the calculation of favourable and unfavourable changes as presented in the previous table.

iii. Weighted average represents the input values used in calculating the fair values for the above financial instruments.

Some of the significant unobservable inputs used in fair value measurement are interdependent. Where this is the case, a description of those interrelationships is included below.

Discount rate

The discount rate is used to determine the present value of future cash flows. The level of the discount rate takes into account the time value of money, but also the risk or uncertainty of future cash flows. Typically, the greater the uncertainty, the higher the discount rate. A higher discount rate leads to a lower valuation and vice versa.

Share conversion

Where the conversion of a security into an underlying instrument is subject to underlying security market pricing and contingent litigation risk, share conversion is factored into the fair value. The higher the share conversion, the higher the valuation and vice versa.

Notes to the consolidated interim financial statements (continued)

14 Fair value of financial assets and liabilities measured at amortised cost

The following table summarises the carrying value and fair value of financial assets and liabilities measured at amortised cost on the Group's balance sheet:

30 September 2017	Carrying value £m	Fair values based on Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets					
Loans and advances to banks	3,009	-	3,009	-	3,009
Held to maturity investment securities (note i)	1,175	-	1,180	-	1,180
Loans and advances to customers:					
Residential mortgages	175,112	-	-	173,892	173,892
Consumer banking	3,729	-	-	3,600	3,600
Commercial lending	11,749	-	-	10,362	10,362
Other lending	76	-	68	8	76
Total	194,850	-	4,257	187,862	192,119
Financial liabilities					
Shares	146,384	-	146,368	-	146,368
Deposits from banks	12,766	-	12,766	-	12,766
Other deposits (note ii)	6,534	-	6,534	-	6,534
Due to customers	548	-	548	-	548
Debt securities in issue	40,491	15,857	25,520	-	41,377
Subordinated liabilities	3,733	-	3,901	-	3,901
Subscribed capital	265	-	257	-	257
Total	210,721	15,857	195,894	-	211,751

4 April 2017	Carrying value £m	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets					
Loans and advances to banks	2,587	-	2,587	-	2,587
Loans and advances to customers:					
Residential mortgages	171,119	-	-	170,542	170,542
Consumer banking	3,680	-	-	3,546	3,546
Commercial lending	12,555	-	-	11,284	11,284
Other lending	17	-	5	12	17
Total	189,958	-	2,592	185,384	187,976
Financial liabilities					
Shares	144,542	-	144,664	-	144,664
Deposits from banks	8,734	-	8,736	-	8,736
Other deposits (note ii)	5,649	-	5,651	-	5,651
Due to customers	2,376	-	2,377	-	2,377
Debt securities in issue	40,339	15,399	25,837	-	41,236
Subordinated liabilities	2,905	-	3,053	-	3,053
Subscribed capital	276	-	244	-	244
Total	204,821	15,399	190,562	-	205,961

Notes:

i. On 25 April 2017, the Group purchased residential mortgage backed securities under a programme to securitise Bradford & Bingley plc residential mortgage assets. These financial assets have been classified as held to maturity investment securities and are held at amortised cost.

ii. Other deposits exclude PEBs which are held at fair value through the income statement and which are included in note 12.

Notes to the consolidated interim financial statements (continued)

14 Fair value of financial assets and liabilities measured at amortised cost (continued)

Loans and advances to banks

The fair value of loans and advances to banks is estimated by discounting expected cashflows at a market discount rate. The carrying amount is considered a reasonable approximation of fair value.

Held to maturity investment securities

The fair value of held to maturity investment securities is sourced from consensus pricing or other observable market prices.

Loans and advances to customers

The fair value of loans and advances to customers is estimated by discounting expected cash flows to reflect current rates for similar lending.

Consistent modelling techniques are used across the different loan books. The estimates take into account expected future cash flows and future lifetime expected losses, based on historic trends and discount rates appropriate to the loans, to reflect a hypothetical exit price value on an asset by asset basis. Variable rate loans are modelled on estimated future cash flows, discounted at current market interest rates. Variable rate retail mortgages are discounted at the currently available market standard variable interest rate (SVR) which, for example, in the case of the Group's residential base mortgage rate (BMR) mortgage book, generates a fair value lower than the amortised cost value as those mortgages are priced below the SVR.

For fixed rate loans, discount rates have been based on the expected funding and capital cost applicable to the book. When calculating fair values on fixed rate loans, no adjustment has been made to reflect interest rate risk management through internal natural hedges or external hedging via derivatives.

Shares, deposits and amounts due to customers

The estimated fair value of shares, deposits and amounts due to customers with no stated maturity, including non-interest bearing deposits, is the amount repayable on demand. For items without quoted market prices the estimated fair value represents the discounted amount of estimated future cash flows based on expectations of future interest rates, customer withdrawals and interest capitalisation. For variable interest rate items, estimated future cash flows are discounted using current market interest rates for new debt with similar remaining maturity. For fixed rate items, the estimated future cash flows are discounted based on market offer rates currently available for equivalent deposits.

Debt securities in issue

The estimated fair values of longer dated liabilities are calculated based on quoted market prices where available or using similar instruments as a proxy for those liabilities that are not of sufficient size or liquidity to have an active market quote. For those notes for which quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

Subordinated liabilities and subscribed capital

The fair value of subordinated liabilities and subscribed capital is determined by reference to quoted market prices of similar instruments

Notes to the consolidated interim financial statements (continued)

15 Offsetting financial assets and financial liabilities

The Group has financial assets and financial liabilities for which there is a legally enforceable right to set off the recognised amounts, and there is an intention to settle on a net basis, or realise the asset and liability simultaneously. In accordance with IAS 32 Financial Instruments: Presentation, where the right to set off is not unconditional in all circumstances this does not result in an offset of balance sheet assets and liabilities.

In accordance with IFRS 7 Financial Instruments: Disclosures, the following table shows the impact of offsetting on financial assets and financial liabilities, where:

- there is an enforceable master netting arrangement or similar agreement in place and an unconditional right to offset is in place ('amounts offset'),
- there is an enforceable master netting arrangement or similar agreement in place but the offset criteria are otherwise not satisfied ('master netting arrangements'), and
- financial collateral is paid and received ('financial collateral').

30 September 2017	Gross amounts recognised £m	Amounts offset (note i) £m	Net amounts reported on the balance sheet £m	Master netting arrangements £m	Financial collateral (note ii) £m	Net amounts after offsetting under IFRS 7 £m
Financial assets						
Derivative financial instruments	5,166	(100)	5,066	(1,869)	(3,047)	150
Total financial assets	5,166	(100)	5,066	(1,869)	(3,047)	150
Financial liabilities						
Derivative financial liabilities	2,580	(31)	2,549	(1,869)	(615)	65
Repurchase agreements	1,644	-	1,644	-	(1,644)	-
Total financial liabilities	4,224	(31)	4,193	(1,869)	(2,259)	65
4 April 2017						
Financial assets						
Derivative financial instruments	5,067	(24)	5,043	(2,216)	(2,799)	28
Total financial assets	5,067	(24)	5,043	(2,216)	(2,799)	28
Financial liabilities						
Derivative financial liabilities	3,210	(28)	3,182	(2,216)	(921)	45
Total financial liabilities	3,210	(28)	3,182	(2,216)	(921)	45

Notes:

i. Amounts offset for derivative financial assets of £100 million (4 April 2017: £24 million) include cash collateral netted of £80 million (4 April 2017: £3 million). Amounts offset for derivative financial liabilities of £31 million (4 April 2017: £28 million) include cash collateral netted of £11 million (4 April 2017: £7 million). Excluding the cash collateral netted, the remaining amounts represent £20 million (4 April 2017: £21 million) of derivative financial assets and derivative financial liabilities which are offset.

ii. The financial collateral is presented at fair value.

Master netting arrangements consist of agreements such as an ISDA Master Agreement, global master repurchase agreements and global master securities lending agreements, whereby outstanding transactions with the same counterparty can be offset and settled net, either unconditionally or following a default or other predetermined event.

Financial collateral on derivative financial instruments consists of cash posted, typically daily or weekly, to mitigate the mark to market exposures. Financial collateral on repurchase agreements typically comprises highly liquid securities which are legally transferred and can be liquidated in the event of counterparty default.

The net amounts after offsetting under IFRS 7 presented below show the exposure to counterparty credit risk for derivative contracts after netting benefits and collateral, and are not intended to represent the Group's actual exposure to credit risk. This is due to a variety of credit mitigation strategies which are employed in addition to netting and collateral arrangements.

Notes to the consolidated interim financial statements (continued)

16 Provisions for liabilities and charges

	Bank levy £m	FSCS £m	Customer redress £m	Other provisions £m	Total £m
At 5 April 2017	16	42	305	24	387
Provisions utilised	(15)	(25)	(48)	(4)	(92)
Charge for the period	-	-	31	-	31
Release for the period	(1)	(3)	(6)	(3)	(13)
Net income statement charge	(1)	(3)	25	(3)	18
At 30 September 2017	-	14	282	17	313
At 5 April 2016	22	84	227	10	343
Provisions utilised	(22)	(42)	(35)	(2)	(101)
Charge for the period	-	-	58	9	67
Release for the period	-	(4)	(6)	(1)	(11)
Net income statement charge	-	(4)	52	8	56
At 30 September 2016	-	38	244	16	298

The income statement charge for provisions for liabilities and charges of £22 million (H1 2016/17: £48 million) includes the customer redress net income statement charge of £25 million (H1 2016/17: £52 million), and the FSCS release of £3 million (H1 2016/17: £4 million). The income statement release for bank levy of £1 million (H1 2016/17: £nil), and the income statement release for other provisions of £3 million (H1 2016/17: charge of £8 million) are included within administrative expenses in the income statement.

Financial Services Compensation Scheme (FSCS)

The FSCS provision of £14 million represents the Group's interest and management expense levy in respect of the 2017/18 scheme year (4 April 2017: £42 million in respect of the 2017/18 and 2016/17 scheme years).

Customer redress

During the course of its business, the Group receives complaints from customers in relation to past sales or conduct. The Group is also subject to enquiries from and discussions with its regulators, governmental and other public bodies, including the Financial Ombudsman Service (FOS), on a range of matters. Customer redress provisions are recognised where the Group considers it is probable that payments will be made as a result of such complaints and other matters.

The Group holds provisions of £282 million (4 April 2017: £305 million) in respect of the potential costs of remediation and redress in relation to historic sales of financial products and post sales administration. This includes amounts for past sales of PPI, non-compliance with consumer credit legislation and other regulatory matters.

The net income statement charge for the year mainly reflects updated assumptions for provisions previously recognised. This includes a £28 million charge in relation to PPI, driven primarily by an increase in the anticipated total number of complaints expected to be received before the Financial Conduct Authority (FCA) complaints deadline of August 2019.

It is considered appropriate for the Group to provide for the estimated total amount required to deal with all ongoing and future PPI complaints. The amount provided at 30 September 2017 therefore reflects the compensation and administrative costs associated with cases that the Group expects to uphold and the cost of processing invalid claims which the Group expects to receive. This estimate will be re-assessed on an ongoing basis in the light of actual claims levels observed.

The table below shows the sensitivity of the PPI provision to changes in complaints volumes, along with other significant assumptions used in calculating the provision:

	Cumulative to 30 September 2017	Future expected	Sensitivity
Claims ('000s of policies) (note i)	345	157	10 = £9m
Average uphold rate (note ii)	31%	48%	5% = £10m
Average redress per claim (note iii)	£1,355	£701	£100 = £15m

Notes:
i. Claims include responses to proactive mailing.
ii. Future expected average uphold rate includes an anticipated increase in the overall uphold rate driven by complaints related to the Supreme Courts' decision in the case of Plevin vs Paragon Personal Finance Limited ('Plevin').
iii. Future expected average redress reflects the expected mix of future claims upheld, including Plevin.

Notes to the consolidated interim financial statements (continued)

16 Provisions for liabilities and charges (continued)

Other provisions

Other provisions include provisions for severance costs and a number of property related provisions. Provisions are made for the expected severance costs in relation to the Group's restructuring activities where there is a present obligation and it is probable that the expenditure will be made.

17 Contingent liabilities

During the ordinary course of business, the Group receives complaints, is subject to threatened or actual legal proceedings, and manages regulatory enquiries, reviews, challenges and investigations. It also receives and reviews allegations of wrongdoing raised by employees and others and provides support and assistance, when it is appropriate to do so, to relevant Law Enforcement Agencies in connection with investigations they may undertake. All such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of incurring a liability. Where it is concluded that it is more likely than not that a payment will be made a provision is recognised based on management's best estimate of the amount that will be payable. For other matters no provision is recognised but disclosure is made of items which are potentially material, either individually or in aggregate, except in cases where the likelihood of a liability crystallising is considered to be remote. Currently the Group does not expect the ultimate resolution of any such matters to have a material adverse impact on its financial position.

18 Retirement benefit obligations

Retirement benefit obligations on the balance sheet	30 September 2017 £m	4 April 2017 £m
Present value of funded obligations	5,866	6,039
Present value of unfunded obligations	12	12
	5,878	6,051
Fair value of fund assets	(5,616)	(5,628)
Net defined benefit liability	262	423

The Group continues to operate two defined contribution schemes and a number of defined benefit pension arrangements, the most significant being the Nationwide Pension Fund. These pension schemes are principally unchanged from the year ended 4 April 2017; further details are set out in note 33 of the Annual Report and Accounts 2017.

The principal actuarial assumptions used are as follows:

Principal actuarial assumptions	30 September 2017 %	4 April 2017 %
Discount rate	2.55	2.40
Future salary increases	3.15	3.20
Future pension increases	2.95	2.95
Retail price index (RPI) inflation	3.15	3.20
Consumer price index (CPI) inflation	2.15	2.20

The assumptions for mortality rates are based on up to date industry standard mortality tables, which allow for future improvements in life expectancies.

Notes to the consolidated interim financial statements (continued)

18 Retirement benefit obligations (continued)

Changes in the present value of the net defined benefit liability (including unfunded obligations) are as follows:

Movements in the net defined benefit liability	30 September 2017 £m	30 September 2016 £m
Net defined benefit liability at 5 April	423	213
Current service cost	48	30
Past service cost	3	1
Curtailment gains	(5)	(1)
Interest on net defined benefit liability	4	3
Return on assets less/(greater) than discount rate	129	(807)
Contributions by employer	(116)	(77)
Administrative expenses	2	2
Actuarial (gains)/losses on defined benefit obligations	(226)	1,359
Net defined benefit liability	**262**	723

The reduction in the net defined benefit liability is mainly due to a decrease in the value of defined benefit obligations combined with employer contributions, partially offset by return on assets less than the discount rate.

The £226 million of actuarial gains (H1 2016/17: £1,359 million of actuarial losses) on defined benefit obligations is driven by a 0.15% increase in the discount rate and a 0.05% decrease in assumed long term inflation since 4 April 2017, as a result of changes in market conditions.

The £129 million from a return on assets, which is less than the discount rate (H1 2016/17: £807 million from a return greater than the discount rate), is driven by changes in market conditions, including rising bond yields partially offset by strong equity returns.

The net impact of actuarial gains and return on assets is an increase of £97 million in other comprehensive income over the period (H1 2016/17: reduction of £552 million).

The £116 million of employer contributions includes a deficit contribution of £49 million in July 2017 (H1 2016/17: £49 million), along with an additional deficit contribution of £37 million in August 2017 following completion of the triennial valuation. The remainder relates to employer contributions in respect of future benefit accrual.

19 Core capital deferred shares (CCDS)

	Number of shares	CCDS £m	Share premium £m	Total £m
At 4 April 2017	5,500,000	6	525	531
Issuance	5,000,000	5	802	807
Issue costs			(13)	(13)
At 30 September 2017	10,500,000	11	1,314	1,325

In September 2017, the Society issued 5,000,000 of £1 core capital deferred shares (CCDS). These CCDS form a single series along with the CCDS previously issued in December 2013. The gross proceeds of the issuance were £807 million (£794 million net of issuance costs).

CCDS are a form of Common Equity Tier 1 (CET1) capital which have been developed to enable the Group to raise capital from the capital markets. Previously issued Tier 1 capital instruments, PIBS, no longer meet the regulatory capital requirements of CRD IV and are being gradually phased out of the calculation of capital resources under transitional rules.

CCDS are perpetual instruments. They rank pari passu to each other and are junior to claims against the Society of all depositors, creditors and investing members. Each holder of CCDS has one vote, regardless of the number of CCDS held.

In the event of a winding up or dissolution of the Society and if there was surplus available, the amount that the investor would receive for each CCDS held is limited to the average principal amount in issue, which is currently £129.24 per share.

There is a cap placed on the amount of distributions that can be paid to holders of CCDS in any financial year. The cap is currently set at £15.67 per share and is adjusted annually in line with CPI.

Notes to the consolidated interim financial statements (continued)

19 Core capital deferred shares (CCDS) (continued)

A final distribution of £28 million (£5.125 per share) for the financial year ended 4 April 2017 was paid on 20 June 2017. This distribution has been recognised in the consolidated statement of movements in members' interests and equity.

Since the balance sheet date the directors have declared a distribution of £5.125 per share in respect of the period to 30 September 2017, amounting in aggregate to £54 million. This has not been reflected in these interim financial statements as it is recognised by reference to the date at which it was declared. The distribution will be paid on 20 December 2017.

20 Other equity instruments

	Total £m
At 30 September 2017	**992**
At 4 April 2017	992

Other equity instruments are Additional Tier 1 (AT1) capital instruments. AT1 instruments rank pari passu to each other and to PIBS. They are junior to claims against the Society of all depositors, creditors and investing members, other than the holders of CCDS.

AT1 instruments pay a fully discretionary, non-cumulative fixed coupon at an initial rate of 6.875% per annum. The rate will reset on 20 June 2019 and every five years thereafter to the five year mid swap rate plus 4.88%. Coupons are paid semi-annually in June and December.

A coupon of £34 million, covering the period to 19 June 2017, was paid on 20 June 2017. This payment has been recognised in the consolidated statement of movements in members' interests and equity.

A coupon payment of £34 million, covering the period to 19 December 2017, is expected to be paid on 20 December 2017. This is not reflected in these interim financial statements as it is recognised by reference to the date at which it is paid.

The coupons paid and declared represent the maximum non-cumulative fixed coupon of 6.875%.

AT1 instruments have no maturity date. They are repayable at the option of the Society on 20 June 2019 and on every fifth anniversary thereafter. AT1 instruments are only repayable with the consent of the PRA.

If the fully loaded CET1 ratio for the Society, on either a consolidated or unconsolidated basis, falls below 7% the AT1 instruments convert to CCDS instruments at the rate of one CCDS share for every £80 of AT1 holding.

21 Related party transactions

There were no related party transactions during the period ended 30 September 2017 which were significant to the Group's financial position or performance.

Full details of the Group's related party transactions for the year to 4 April 2017 can be found in note 38 of the Annual Report and Accounts 2017.

Notes to the consolidated interim financial statements (continued)

22 Notes to the consolidated cash flow statement

Non-cash items included in profit before tax	Half year to 30 September 2017 £m	Half year to 30 September 2016 £m
Net increase/(decrease) in impairment provisions	17	(40)
Net decrease in provisions for liabilities and charges	(74)	(45)
Impairment losses on investment securities	-	5
Depreciation, amortisation and impairment	192	175
Profit on sale of property, plant and equipment	(1)	(1)
Interest on subordinated liabilities	74	54
Interest on subscribed capital	7	24
Gains from derivatives and hedge accounting	(36)	(77)
Total	179	95

Changes in operating assets and liabilities		
Loans and advances to banks	17	(19)
Net derivative financial instruments and fair value adjustment for portfolio hedged risk	(212)	(1,809)
Loans and advances to customers	(3,312)	(6,279)
Other operating assets	806	(625)
Shares	1,842	4,700
Deposits from banks, customers and others	2,471	1,666
Debt securities in issue	71	2,686
Deferred taxation	2	(83)
Retirement benefit obligations	(161)	510
Other operating liabilities	292	(137)
Total	1,816	610

Cash and cash equivalents		
Cash	15,302	17,213
Loans and advances to banks repayable in 3 months or less (note i)	2,665	2,979
Total	17,967	20,192

Note:
i. Cash equivalents include £1,924 million (30 September 2016: £2,216 million) of cash collateral posted with bank counterparties.

The Group is required to maintain balances with the Bank of England and certain other central banks which, at 30 September 2017, amounted to £344 million (30 September 2016: £344 million). These balances are included within loans and advances to banks on the balance sheet and are not included in the cash and cash equivalents in the cash flow statement as they are not liquid in nature.

Responsibility statement

The directors confirm that, to the best of their knowledge, the consolidated interim financial statements have been prepared in accordance with IAS 34, as adopted by the European Union. The Interim Results include a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

- an indication of important events that have occurred in the first six months of the financial year and their impact on the consolidated interim financial statements and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the first six months of the financial year and any material changes in the related party transactions described in the Annual Report and Accounts 2017.

A full list of the board of directors can be found in the Annual Report and Accounts 2017, subject to the following update in respect of a change that has occurred during the period to 30 September 2017:

- Gunn Waersted was appointed to the Board on 1 June 2017 and is a member of the IT Strategy and Resilience Committee.

Signed on behalf of the Board by

Mark Rennison
Chief Financial Officer

16 November 2017

Independent review report to Nationwide Building Society

Report on the consolidated interim financial statements

Our conclusion

We have reviewed the consolidated interim financial statements (the "interim financial statements") for Nationwide Building Society and its subsidiaries ("the Group") on pages 46 to 71 in the interim results for the six month period ended 30 September 2017. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the consolidated balance sheet as at 30 September 2017;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated cash flow statement for the period then ended;
- the consolidated statement of movements in members' interests and equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the interim results for the period ended 30 September 2017 have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The interim results for the period ended 30 September 2017, including the interim financial statements, are the responsibility of, and have been approved by, the directors. The directors are responsible for preparing the interim results for the period ended 30 September 2017 in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the interim results for the period ended 30 September 2017 based on our review. This report, including the conclusion, has been prepared for and only for the Group for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. 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.

Independent review report to Nationwide Building Society (continued)

Report on the consolidated interim financial statements (continued)

We have read the other information contained in the interim results for the period ended 30 September 2017 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
London
16 November 2017

Notes:

a) The maintenance and integrity of the Nationwide Building Society website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim financial statements since they were initially presented on the website.
b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Other information

The interim results information set out in this announcement is unaudited and does not constitute accounts within the meaning of section 73 of the Building Societies Act 1986.

The financial information for the year ended 4 April 2017 has been extracted from the Annual Report and Accounts 2017. The Annual Report and Accounts 2017 has been filed with the Financial Conduct Authority and the Prudential Regulation Authority. The Independent Auditors' Report on the Annual Report and Accounts 2017 was unqualified.

Nationwide adopted the British Bankers' Association Code for Financial Reporting Disclosure ('the BBA code') in its Annual Report and Accounts 2017. The code sets out five disclosure principles together with supporting guidance. Full details of the principles are included in the Annual Report and Accounts 2017. These principles have been applied, as appropriate, in the context of these interim results.

A copy of the Interim Results is placed on the website of Nationwide Building Society. The directors are responsible for the maintenance and integrity of information on the Society's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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