Interim Results

For the period ended **30 September 2016**

Contents

Underlying profit

Profit before tax shown on a statutory and underlying basis is set out on page 5. Statutory profit before tax of £696 million has been adjusted for a number of items, consistent with prior periods, to derive an underlying profit before tax of £615 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 that 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.

Forward looking statements

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 the Society and will contain detailed information about the Society and management as well as financial statements.

RECORD CURRENT ACCOUNT AND LENDING GROWTH AND PROTECTION FOR SAVERS AS NATIONWIDE SUPPORTS MEMBERS DURING UNCERTAIN TIMES

Nationwide Chief Executive, Joe Garner, said:
"As a building society we are owned by our members and are answerable to them, which is why, for 170 years, we have made decisions focused on their best interests. The performance we are announcing today is a reflection of this. Despite economic uncertainty following the EU referendum, the Society has continued to lend to help our members get onto and move up the housing ladder, with record net lending in the half year. We have offered long term value for those who want to save for their future and more people than ever before have chosen to open a Nationwide current account. We have also continued to be ranked number one for customer service satisfaction amongst our high street peer group[1].

"We have made a number of pledges to help our savers and borrowers. These include protecting selected savings rates to minimise the impact of the base rate change and helping our members with variable rate mortgages by passing on the base rate decrease in full. These conscious decisions and those taken over recent years have contributed to a reduction in profits in the first half of the year in line with expectations, demonstrating our commitment to putting members' interests at the heart of everything we do.

"Our investment in technology, is enabling us to test the viability of returning branches to communities which have been left without banking services, by opening a pilot branch in Glastonbury which will use the latest technology alongside the personal service so many value.

"Nationwide's strong capital position and commitment to continue to deliver the best service on the high street mean we are well placed to continue to support members whatever the prevailing economic conditions."

Nationwide Finance Director, Mark Rennison, said:
"Nationwide has traded strongly over the first six months of the year, increasing gross mortgage lending by 17% to £17.5 billion, a market share of 14.5%. Our focus on offering attractive products and rewarding loyal savers has resulted in member deposit balances increasing by £4.7 billion.

"Statutory profit for the period was £696 million and underlying profit was £615 million, both of which include a gain of £100 million on the disposal of our stake in Visa Europe. Our profit performance has reduced in line with our expectations and reflects continued margin pressure due to the prevailing low interest rate environment and the conscious decisions we have taken over recent years to support our members.

"We have also increased investment in our products and services for the long term benefit of our membership consistent with our position as the leader for customer service on the high street."

[1] © GfK 2016, Financial Research Survey (FRS), 3 months ending 30 September 2016 vs. 31 March 2016, 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 >6% (Barclays, Halifax, HSBC, Lloyds Bank (inc C&G), NatWest and Santander).

Key highlights

- **A strong Society, making decisions for the benefit of members over the long term**
  - in line with expectations statutory profit reduced to £696 million (H1 2015/16: £802 million)
  - underlying profit £615 million (H1 2015/16: £801 million)
  - Common Equity Tier 1 ratio of 23.3% and leverage ratio of 4.0% (4 April 2016: 23.2% and 4.2% respectively)

- **Record prime gross mortgage lending**
  - gross mortgage lending up 17% to £17.5 billion
  - best ever net mortgage lending, up 46% to £6 billion
  - record gross prime lending of £14.7 billion, up 23%
  - accounted for one-third of UK net mortgage lending over the past five years
  - helped a record number of first-time buyers, up 50% to 38,600

- **Strong growth in deposit balances**
  - increased our member deposit balances by £4.7 billion (H1 2015/16: £2.6 billion)
  - average deposit rate of 1.07%, 25 basis points higher than the market average, equating to an annualised benefit for our members of £380 million

- **Record numbers of new current accounts**
  - record 377,000 current accounts opened, an increase of 36%
  - 75,500 accounts switched to Nationwide, up 61%, representing a 15.8% market share
  - continued investment with the launch of FlexStudent, our first student current account
  - '*Best Rewards*' – uSwitch Current Accounts Awards (2016); '*Best Online Current Account Provider 2016*' – Your Money

- **No.1 for customer service**
  - ranked number one for customer service satisfaction amongst our high street peer group with a lead of 8.0%[2]
  - No. 1 in Forrester UK 2016 Customer Experience Index
  - '*Best Extra Large Call Centre*' – Top 50 Companies for Customer Service

- **Building society, nationwide**
  - testing the viability of returning branches to communities, with a pilot branch in Glastonbury
  - supported savers and borrowers after the base rate cut, protecting rates for those with Regular Saver and Help to Buy products, and making £10 billion a year available to first time buyers
  - Ministry of Defence Gold Award for our support of the military community
  - our Specialist Support Service has helped more than 700 members affected by life-limiting situations, unlocking almost £66,000 in financial support

- **Housing market outlook**
  - demand and supply well matched with modest slowdown in activity since the EU referendum
  - less certain economic outlook may soften demand but prices will continue to be supported by low interest rates and limited supply of new homes

[2] © GfK 2016, Financial Research Survey (FRS), 30 September 2016 vs. 31 March 2016, 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 >6% (Barclays, Halifax, HSBC, Lloyds Bank (inc C&G), NatWest and Santander).

Financial summary

	Half year to 30 September 2016		Half year to 30 September 2015	
Financial performance	**£m**		£m	
Total underlying income	**1,642**		1,683	
Underlying profit before tax	**615**		801	
Statutory profit before tax	**696**		802	
Mortgage lending	**£bn**	***%***	£bn	*%*
Group residential – gross/*gross market share*	**17.5**	***14.5***	14.9	*13.2*
Group residential – net/*net market share*	**6.0**	***33.9***	4.1	*21.2*
	%		%	
Average loan to value of new residential lending (by value)	**71**		69	
Member deposits (note i)	**£bn**	***%***	£bn	*%*
Balance movement/*market share*	**4.7**	***10.3***	2.6	*8.5*
Key ratios	**%**		%	
Cost income ratio – underlying basis	**57.1**		51.0	
Cost income ratio – statutory basis	**54.6**		51.0	
Net interest margin	**1.33**		1.58	

	At 30 September 2016	At 4 April 2016
Balance sheet	**£bn**	£bn
Total assets	**225.5**	208.9
Loans and advances to customers	**185.1**	178.8
Member deposits (shares) (note i)	**143.4**	138.7
Asset quality		
Residential mortgages:	**%**	%
Proportion of residential mortgage accounts 3 months+ in arrears	**0.45**	0.45
Average indexed loan to value of residential mortgage book (by value)	**54**	55
Impairment provisions as a % of non-performing balances	**3.2**	3.2
Consumer banking:		
Non-performing loans as a percentage of total balances (excluding charged off balances) (note ii)	**3**	4
Impairment provisions as a percentage of non-performing balances (including charged off balances) (note ii)	**83**	81
Key ratios	**%**	%
Capital - CRD IV:		
Common Equity Tier 1 ratio (note iii)	**23.3**	23.2
Leverage ratio (note iii)	**4.0**	4.2
Other balance sheet ratios:		
Liquidity coverage ratio	**140.6**	142.6
Wholesale funding ratio	**27.2**	24.8
Loan to deposit ratio (note iv)	**117.7**	117.2

Notes:

i. Member deposits include current account credit balances.

ii. 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.

iii. Reported under CRD IV on an end point basis. The 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 loan to deposit ratio represents loans and advances to customers divided by (shares + other deposits + amounts due to customers).

Chief Executive's review

Making decisions for the benefit of members over the long term

As a building society, we were founded by ordinary people who came together to achieve things they could not achieve alone, like owning a home and saving for their future. To this day, we remain a member-owned mutual building society able to take a long term view and focus on providing excellent service, security and stability for our members, our owners. This has been particularly important over the first half of the year given the uncertainty and market volatility which followed the EU referendum.

We have taken the conscious decision to stand by our members, continuing to help them by reducing variable mortgage rates and offering long term value to savers, even in the current low interest rate environment. As expected these conscious decisions and those taken in recent years have had a knock-on impact on our profits. At the same time more people than ever before have chosen us for their everyday banking needs, attracted by the breadth, value and quality of our current account range. This has resulted in strong trading and a good financial performance over the first half of the year.

Underlying profit has reduced in the period to £615 million. This is due to three things. First, a reduction in net interest income due to the prevailing low interest rate environment, competition in the mortgage market and the active decisions we have taken to support savers and variable rate mortgage members. Second, a growth in underlying costs. And third, a modest increase in impairment provisions. These have been partially offset by a gain of £100 million from the disposal of the Society's stake in Visa Europe during the period. Our NIM in the period of 1.33% was lower than the same period last year (H1 2015/16: 1.58%), but has been broadly stable over the first half of the year, with closing spot NIM in September 2016 in line with that for the period.

Strategic investment into the Society is greater than ever before reflecting our financial strength and ability to make the right long term decisions for our members. We are investing in new products and investing to provide members with better service propositions such as our new banking app and further expansion of Nationwide Now (our video link advice service) which is proving so successful. We also continue to make investment in strengthening our resilience and control environment to keep our members' money safe, as well as supporting our people as a responsible employer through increases to our pension contributions. This investment, along with costs driven by our strong trading performance, has led to an increased underlying cost income ratio of 57.1% (H1 2015/16: 51.0%). Whilst sharpening our focus on efficiency, we will continue to invest where we believe it is in the long term interests of our members.

Nationwide remains safe and secure as evidenced by our strong capital position and balance sheet, with consolidated CET1 and leverage ratios of 23.3% and 4.0% respectively (4 April 2016: 23.2% and 4.2% respectively).

Building society, nationwide

As a mutual we do not aim to maximise profit, instead retaining sufficient earnings to support future growth and sustain a strong capital position. Being member-owned we are in an enviable position that allows us to take the right long term decisions and invest in making a tangible difference to our members' and employees' lives by tackling the issues that are important to them.

We believe that there is still a role for the branch on the high street, offering people the choice of managing their money using the latest technology in branch together with the personal service so many value in a digital age. Indeed, our branches are alive and well as evidenced by the fact that of all new current account openings during the first half of the year, over half were opened in a branch, and of these almost 20% were opened through Nationwide Now. We believe we can use this technology and digital investment to test the viability of opening a branch on high streets with limited access to a bank or building society. We will pilot this concept with a 'community contract' branch in Glastonbury, Somerset, where a consultation suggested that residents were willing to become a member of Nationwide to support the Society's investment. This branch will feature the latest technology, including the Nationwide Now service which gives members access to our financial consultants at a time that suits them.

Chief Executive's review (continued)

We were delighted to have been awarded the Employer Recognition Scheme's Gold award by the Ministry of Defence in recognition of our support for former and serving armed forces personnel.

Following the EU referendum, we have established a Brexit Consumer Support Panel which brings together leading consumer industry organisations to address the challenges facing consumers as the UK's relationship with the EU evolves. The panel, chaired by Nationwide Building Society, will provide insights to Government into consumer attitudes and behaviours in relation to Brexit and will help to promote positive outcomes for consumers as the renegotiation process is progressed. The organisations represented on this panel have millions of members, customers and employees across the UK, bringing a real insight into the levels of confidence around the country and we look forward to working with the Government over the coming months to better understand the challenges households face.

We are also committed to investing in our people. Not only have we championed fair pay as one of the first high street names to sign up to the Living Wage Foundation but we have also improved our pension scheme, increasing the amount we contribute to our employees' pensions. For employees in our defined contribution scheme who pay up to 7% of their salary into their pension, Nationwide will put in 16%, representing one of the most attractive pension schemes in the UK.

We continue to place a sharp focus on our core purpose of building society, nationwide and making decisions which are in the best interests of our membership. It is for this reason, following a strategic review of our commercial real estate (CRE) business, we have concluded our CRE lending is not key to the Society's vision for the future and that our resources would be better deployed elsewhere. Therefore, we will stop lending to new and existing CRE customers. We will maintain a dedicated service for each existing CRE customer throughout the remainder of their loan term. We will continue to provide funding to registered social landlords and existing Project Finance customers as well as continuing our Business Savings proposition.

Helping members buy homes and save for the future

Nationwide was founded to help people own their own homes and save for the future.

We have continued to help more members get onto or move up the housing ladder in the last six months. Gross mortgage lending increased by 17% to £17.5 billion (H1 2015/16: 14.9 billion) and net lending was up 46% to £6.0 billion (H1 2015/16: £4.1 billion), representing our best period ever. These equate to market shares of 14.5% and 33.9% respectively, well above our natural par share and strengthening our position as the UK's second largest mortgage lender. Within this, we delivered record prime gross mortgage lending of £14.7 billion, up 23%.

We arranged a record 38,600 mortgages for people buying their first home, an increase of 50%. This represents one in five of all first time buyers. We are committed to helping first time buyers by maintaining low deposit lending and minimising costs with schemes such as Help to Buy and Save to Buy.

We have taken a stand to help more people onto the housing ladder. As part of our five-point plan, launched to underline our commitment to our members, the Society will make at least £10 billion a year available to lend to first time buyers, where it is appropriate and responsible to do so. We have also protected the rates on Nationwide's Help to Buy ISA and Save to Buy products following the base rate decrease. This will help ensure the road to home ownership does not get longer for those saving to buy their first home.

At the same time, the Society passed on the base rate cut in full to Base Mortgage Rate (BMR), Standard Mortgage Rate (SMR) and tracker mortgage members, thereby lowering their monthly payments.

Chief Executive's review (continued)

As the proportion of UK households living in rented accommodation continues to grow, we have maintained support for the private rented sector through our dedicated buy to let subsidiary, The Mortgage Works (TMW). Gross buy to let mortgage lending for the first six months of the year was £2.8 billion (H1 2015/16: £2.9 billion). The buy to let sector is going through a period of substantial change resulting from new rules on landlord taxation and a new regulatory regime which provides guidance on underwriting and affordability standards for lending to landlords. As a responsible lender we took the decision to lead the market in making changes to our affordability assessment criteria to ensure our borrowers do not overstretch themselves. This is expected to result in lower buy to let lending in the second half of the year.

While borrowers have benefited from lower interest rates, we have also offered a support package for savers, protecting rates where possible and offering competitive products.

We have protected our Help to Buy ISA and Save to Buy rates, as well as maintaining the rates on the Flexclusive Regular Saver and Regular Saver accounts. During the period our members have benefited from an average rate on their deposits of 1.07%, 25 basis points higher than the market average, equating to an annualised benefit for our members of £380 million. Our loyal savers[3] have received an average rate of 1.13% over the last six months, 46 basis points higher than the equivalent market average, equating to an annualised benefit of almost £100 million.

In addition, over 185,000 Flexclusive Regular Saver accounts have been opened in the first half of the year, offering current account holders 5.00% on monthly payments of up to £500 for the first 12 months.

Thanks to our competitive savings range, we have seen an increase in member deposit balances of £4.7 billion, maintaining our position as the UK's second largest savings provider with a market share of over 10%.

More people than ever before choose Nationwide for everyday banking

As well as strong mortgage and savings growth, more people than ever before are choosing Nationwide for their everyday banking, attracted by the breadth, value and quality of our current account range. We opened a record 377,000 current accounts during the first half of the year, a 36% increase on last year (H1 2015/16: 277,000). Again, we have been a net beneficiary of customers switching via the Current Account Switch Service, driven by the popular 'Recommend a Friend' referral scheme. In total 75,500 accounts were switched to Nationwide, an increase of 61%, representing a market share of switchers of 15.8%.

Our continued investment in growing our current account base has contributed to the record account openings. During the half year we have extended our product range with the launch of FlexStudent, our first ever student account, and offered members innovative new ways to manage their money. This has led to an increase in our share of main standard and packaged current accounts to 7.3%[4] (4 April 2016: 7.1%).

Number one for customer satisfaction amongst our high street peer group[5]

We strive to provide members with excellent service whether they choose the convenience of managing their money digitally or the personal touch in a branch. We continue to invest in technology to make life easier for members. As with Apple Pay, we were amongst the first in the UK to provide Android Pay and we have launched a new version of our mobile banking app, which allows customers to manage their accounts quicker and easier than ever before.

We know our members still value the face to face help and support they can receive in a branch so we are using the latest fibre optic technology to enhance and deliver great service in locations which our members find convenient.

We continue to be ranked number one for customer satisfaction amongst our high street peer group, with a lead of 8.0%[5].

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[3] Nationwide rewards loyalty by giving members with a Loyalty Saver product a higher rate of interest depending on the length of their membership.
[4] Based on market data as at August 2016.
[5] © GfK 2016, Financial Research Survey (FRS), 3 months ending 30 September 2016 vs. 31 March 2016, 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 >6% (Barclays, Halifax, HSBC, Lloyds Bank (inc C&G), NatWest and Santander).

Chief Executive's review (continued)

Our record on complaints continues to be very strong. Despite having a 12.8% market share of mortgages and a 10.1% market share of savings, we account for only 2% of total industry complaints, and we make every attempt to resolve complaints with the customer. If complaints are referred to the Financial Ombudsman, latest figures show that the Ombudsman upholds our decisions in 85% of cases, compared with an industry average of only 52%.

Supporting members in uncertain times

The UK economy grew at a respectable pace in the first nine months of 2016. However, uncertainty following the EU referendum is likely to adversely impact investment and hiring decisions which in turn is likely to result in slower growth in the quarters ahead. To date, market data points to a modest slowdown in the wider economy and our core markets. Policy stimulus measures aimed at lowering borrowing costs should help to provide support for economic activity and policymakers appear willing to further ease monetary and fiscal policy if required.

The longer term impacts of the EU referendum will depend on a range of factors, not least the time it takes to reach trading agreements with EU and non-EU economies and the nature of those agreements. Though the outlook is uncertain, our assumption is that economic growth will be maintained at a modest pace in the years ahead. Interest rates are expected to remain at historically low levels for a prolonged period in order to support economic activity, where further stimulus measures (including a base rate cut to close to, but above, zero) may still be required.

The recent decline in sterling should provide some support for UK exports, though in the short term it will also exert upward pressure on inflation which will act as a drag on real income growth. However, the impact on inflation is expected to prove transitory and is unlikely to prevent policymakers implementing further stimulus if required.

There are signs of a modest slowdown in activity in the housing market, especially in regard to the buy to let market, and this has made it difficult to assess the underlying strength of demand in recent quarters. The number of mortgages approved for house purchase has moderated, and new buyer enquiries remain subdued, though the supply of houses is also constrained. Indeed, demand and supply have remained fairly well matched and the annual pace of house price growth has remained in a narrow range of between 3% and 6% since early 2015.

Housing market trends will depend crucially on developments in the wider economy. This suggests activity may soften further in the months ahead, though the low level of interest rates will provide support for demand and the limited supply of homes on the market is likely to provide support for prices.

We will continue to act in the best interests of our members. Nationwide's strong capital position, high quality balance sheet and lead on customer satisfaction means we are well placed to continue to help our members whatever the prevailing economic conditions. We face the future with confidence and will continue to do the right thing for our members.

Financial review

Overall performance

Our financial results for the period ended 30 September 2016 show a statutory profit before tax of £696 million (H1 2015/16: £802 million) and underlying profit before tax of £615 million (H1 2015/16: £801 million). These results include a gain of £100 million on the disposal of our stake in Visa Europe.

Underlying profit has reduced 23% to £615 million, predominantly due to a reduction in net interest income, growth in underlying costs and an increase in impairment charges. As indicated when announcing our results for the 2015/16 financial year, our margins have trended lower as a result of ongoing competition in the mortgage market, combined with continued natural attrition of BMR balances and the impact of the prolonged low interest rate environment, including the cut in the base rate to 0.25% in August.

Profit for the period remains within the target range of our financial performance framework (£1 billion to £1.5 billion per annum), which we introduced in the Annual Report and Accounts 2016. This range represents the level of annual profit we believe is necessary for us to continue to invest and support members' needs while maintaining financial strength. The framework is based on the underlying principle of maintaining capital comfortably in excess of regulatory leverage ratio requirements. As a consequence of lowering our forecast balance sheet in light of the outcome of the EU referendum, we expect to update the target range at the end of the year.

The underlying cost income ratio has increased to 57.1% (H1 2015/16: 51.0%). The movement reflects the reduction in net interest income combined with incremental expenditure on strategic investment to enhance efficiency and service for our members, and increased employee costs, including our investment in a 'Living Pension' for our employees. Whilst sharpening our focus on efficiency, we will continue to invest where we believe it is right for our members.

Total assets have grown by £17 billion to £226 billion as at 30 September 2016. This increase is attributable to £6 billion growth in residential mortgage lending, reinforcing our position as the second largest mortgage lender in the UK and increasing our market share of prime mortgage balances to 12.7% (4 April 2016: 12.4%). In addition, there has been an increase in our high quality liquid assets primarily due to pre-funding of wholesale maturities and an increase in collateral relating to derivatives.

Our capital levels have remained strong during the period with CET1 and leverage ratios of 23.3% and 4.0% respectively (4 April 2016: 23.2% and 4.2%), comfortably in excess of current regulatory requirements, and well placed to meet foreseeable regulatory capital requirements.

Income statement

Underlying and statutory results	**Half year to 30 September 2016 £m**	Half year to 30 September 2015 £m
Net interest income	**1,449**	1,557
Net other income	**193**	126
Total underlying income	**1,642**	1,683
Underlying administrative expenses	**(938)**	(858)
Impairment losses	**(37)**	-
Underlying provisions for liabilities and charges	**(52)**	(24)
Underlying profit before tax (note i)	**615**	801
Transformation costs (note ii)	**-**	(8)
FSCS (note ii)	**4**	(5)
Gains from derivatives and hedge accounting (note ii)	**77**	14
Statutory profit before tax	**696**	802
Taxation	**(194)**	(166)
Profit after tax	**502**	636

Notes:

i. Underlying profit represents management's view of underlying performance and is presented to aid comparability across reporting periods. It is not designed to measure sustainable levels of profitability.

ii. Within the statutory results presented in the financial statements:
- transformation costs are included within administrative expenses
- FSCS costs are included within provisions for liabilities and charges
- gains/losses from derivatives and hedge accounting are presented separately within total income.

Financial review (continued)

Net interest income and margin	**Half year to 30 September 2016 £m**	Half year to 30 September 2015 £m
Net interest income	**1,449**	1,557
Weighted average total assets	**220,364**	200,112
	%	%
Net interest margin	**1.33**	1.58

As anticipated our net interest margin (NIM) in the period of 1.33% was lower than the same period last year (H1 2015/16: 1.58%). The reduction in NIM relative to the previous year is primarily due to ongoing competition in the mortgage market, combined with continued natural attrition of BMR balances and the impact of medium term interest rate expectations. The NIM position has stabilised, with closing spot NIM at 30 September 2016 in line with that for the period.

Our BMR balances have reduced by £7.1 billion over the past 12 months to £32.3 billion as at 30 September 2016 and we expect this trend to continue for the remainder of the financial year. This, together with the impact of competition on new business pricing, has resulted in a reduction of approximately 20 bps in the average margin on mortgage balances, measured against relevant market indices (swaps or Libor).

At a market level, the incentive to support overall margins through lower deposit rates in the face of competition for lending, combined with deposit growth in excess of demand for lending, has resulted in retail funding costs declining over the last 12 months. Against this backdrop we have sought to support our saving members as far as possible by deferring rate reductions and maintaining rates significantly in excess of those on offer from our major high street peers. Following the decision by the Bank of England to cut the base rate to 0.25% we committed to protecting members who save regularly, or are building a deposit to buy their own home, resulting in selected products being maintained at their existing rates. As a mutual we offer savings products which represent long term good value and over the last six months our depositors have benefited from an average rate of 1.07%, 25 bps higher than the market average rate, equating to an annualised benefit to savers of some £380 million.

Key factors influencing NIM in the second half of the year are likely to be interest rate expectations, sustained mortgage market competition, and our continued focus on delivering long term value to our savers. We currently expect that our NIM for the second half of the year will be only modestly lower than for the first half.

Net other income	**Half year to 30 September 2016 £m**	Half year to 30 September 2015 £m
Current account and savings	**35**	38
Protection and investments	**36**	37
General insurance	**30**	37
Mortgage	**4**	4
Credit card	**(3)**	8
Commercial	**5**	7
Other	**86**	(5)
Total underlying net other income	**193**	126
Gains from derivatives and hedge accounting	**77**	14
Total statutory net other income	**270**	140

Underlying net other income has increased by 53% to £193 million (H1 2015/16: £126 million) primarily due to a gain of £100 million from the disposal of our stake in Visa Europe during the period, which is included in 'Other' above. Excluding this gain, net underlying other income has reduced during the period primarily due to a decrease in interchange income from credit card and current account transactions, following the introduction of regulatory caps. In addition current account fee income has reduced following the introduction of our FlexBasic current account, which has no fees for certain transactions.

Our general insurance income has reduced by £7 million due to an increasingly challenging market environment, combined with our pricing proposition which is focused on delivering value to members.

Financial review (continued)

Gains or losses from derivatives and hedge accounting arise due to hedge accounting ineffectiveness or because hedge accounting is not achievable. This volatility is largely attributable to accounting rules which do not fully reflect the economic reality of the Group's hedging strategy. Details of fair value gains and losses relating to derivatives and hedge accounting are provided in note 6 to the consolidated interim financial statements.

Administrative expenses	**Half year to 30 September 2016 £m**	Half year to 30 September 2015 £m
Employee costs	**388**	349
Other administrative expenses	**375**	354
Depreciation and amortisation	**175**	155
Total underlying administrative expenses	**938**	858
Transformation costs	**-**	8
Total statutory administrative expenses	**938**	866
	%	%
Cost income ratio – underlying basis	**57.1**	51.0
Cost income ratio – statutory basis	**54.6**	51.0

The strong trading performance in the period which has led to additional business volumes, coupled with increases to employee costs and strategic investment in propositions and service for members, has resulted in an increase in underlying administrative expenses of 9.3% (£80 million). At a statutory level administrative expenses have increased by 8.3% (£72 million). As a result, the cost income ratio (CIR), on an underlying basis, has increased to 57.1% (H1 2015/16: 51.0%).

Employee costs have increased, reflecting the impact of an annual pay award averaging 2.1% and higher costs resulting from enhancements to the Group's defined contribution pension scheme in line with our policy of providing a 'Living Pension' alongside being a Living Wage employer. In addition, average employee numbers have increased by 4% period on period as we continue to build greater capacity to meet additional business volumes and further strengthen risk and control functions.

Strategic investment has been greater than ever before, with the majority relating to initiatives that directly benefit members and reflecting our strategy of taking decisions to support the long term interests of our members. During the period, investment has focused on service and efficiency improvements, both in branch and through digital channels, such as payments through mobile phones, updating our savings point of sale systems and video links in branches which allow members to speak face to face with advisors in another location. Further investment has concentrated on IT resilience and ensuring compliance with UK and EU regulatory requirements.

Our cost trajectory reflects significant growth and investment over recent years. Mortgage balances have grown 12.8% over the last 2 years and we have 24% more main current account members today than in 2014. Investment in support of our member proposition will continue though we expect the impact on the cost base from this activity to be offset by the efficiencies it provides and efficiencies realised from previous investment. The continuing low rate environment will constrain income growth over the foreseeable future and we therefore intend to increase focus on driving our efficiency agenda, exploiting the benefits of past and ongoing investment to accelerate automation and digitise service delivery in line with the needs of our members. This will result in lower cost growth in future periods and we will provide further information in our full year results announcement.

Financial review (continued)

Impairment losses/(reversals)	**Half year to 30 September 2016 £m**	Half year to 30 September 2015 £m
Residential lending	**5**	(7)
Consumer banking	**32**	33
Retail lending	**37**	26
Commercial lending	**(5)**	(27)
Other lending	**-**	1
Impairment losses on loans and advances	**32**	-
Impairment losses on investment securities	**5**	-
Total	**37**	-

Impairment losses for the period of £37 million have increased compared to the same period last year (H1 2015/16: £nil) primarily due to a lower level of net recoveries in the commercial real estate (CRE) portfolio.

Residential lending impairment charges for the period of £5 million (H1 2015/16: £7 million reversal) reflect a lower benefit from house price improvement than seen in the previous period. Arrears performance and LTV profile have been stable with cases in excess of three months in arrears amounting to 0.45% (4 April 2016: 0.45%) and the indexed LTV of the portfolio now at 54% (4 April 2016: 55%).

Consumer banking impairment losses have remained broadly stable at £32 million (H1 2015/16: £33 million), with the overall performance and risk profile of the portfolio improving during the period.

Commercial lending impairments relate exclusively to commercial real estate (CRE) lending, with no arrears in our registered social landlords and Project Finance portfolios. A continuation of improved CRE market conditions in the early part of the period, including increased liquidity and capital values, has resulted in a net impairment reversal of £5 million. The higher reversal in the previous year reflected strongly improving market conditions impacting higher impaired balances, which have been reducing in line with the managed run-off of the book. Since the EU referendum expectations for commercial property values have moderated and most forecasts are predicting modest falls.

The impairment on investment securities of £5 million relates to the revaluation of a single available for sale asset which is held within our closed out of policy Treasury portfolio.

Provisions for liabilities and charges	**Half year to 30 September 2016 £m**	Half year to 30 September 2015 £m
Underlying provisions for liabilities and charges – Customer redress	**52**	24
FSCS levy	**(4)**	5
Total provisions for liabilities and charges	**48**	29

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 in the period predominantly relates to updated estimates for provisions previously recognised, including £30 million relating to Payment Protection Insurance (PPI) redress and £15 million for the related cost of administering PPI claims. When assessing the adequacy of our PPI provision we have considered the implications of the proposals published by the Financial Conduct Authority in its August 2016 consultation paper (CP16/20), including the estimated impact of the Plevin case.

The Financial Services Compensation Scheme (FSCS) release of £4 million (H1 2015/16: £5 million charge), reflects a small reduction in the balance sheet amount provided on 4 April 2016 for our anticipated share of interest costs in relation to the 2016/17 FSCS scheme year. More information on customer redress and FSCS is included in note 18 to the consolidated interim financial statements.

Financial review (continued)

Taxation

The statutory reported tax charge for the period of £194 million (H1 2015/16: £166 million) represents an effective tax rate of 27.9% (H1 2015/16: 20.7%), which is higher than the statutory rate in the UK of 20% (H1 2015/16: 20%). The higher effective rate is due principally to the banking surcharge of 8%, equivalent to £40 million (H1 2015/16: £nil), together with the tax effect of disallowable expenses. Further information is provided in note 9 to the consolidated interim financial statements.

Balance sheet

Total assets have increased 8% during the period to reach £226 billion at 30 September 2016 (4 April 2016: £209 billion). This increase is in part attributable to net mortgage lending of £6.0 billion resulting from our continued strong trading performance. The remainder of the growth in total assets predominantly reflects an increase of £8.4 billion in high quality liquid assets.

Mortgage lending has largely been supported by strong retail funding flows with member balances growing by £4.7 billion in the period, resulting in our market share of savings stock remaining broadly flat at 10.1% (4 April 2016: 10.2%). Of the growth in member balances, £1.8 billion is attributable to our current account proposition as we have continued to increase our market share of main current accounts from 7.1% at 4 April 2016 to 7.3%[6]. Debt securities in issue have increased by £7.6 billion to £43.7 billion reflecting additional issuance activity in the wholesale markets during the period to support the increase in liquidity.

The Group intends to participate in the Bank of England's Term Funding Scheme (TFS) which provides cash secured against eligible collateral and has a four year maturity.

Assets	**30 September 2016**		4 April 2016	
	£m	**%**	£m	%
Residential mortgages	**168,356**	***91***	162,164	*91*
Commercial lending	**13,134**	***7***	13,197	*7*
Consumer banking	**3,909**	***2***	3,869	*2*
Other lending	**130**	***-***	20	-
	185,529	***100***	179,250	*100*
Impairment provisions	**(403)**		(443)	
Loans and advances to customers	**185,126**		178,807	
Other financial assets	**37,835**		27,782	
Other non-financial assets	**2,585**		2,350	
Total assets	**225,546**		208,939	
Asset quality	**%**		%	
Residential mortgages:				
Proportion of residential mortgage accounts 3 months+ in arrears	**0.45**		0.45	
Average indexed loan to value of residential mortgage book (by value)	**54**		55	
Impairment provisions as a percentage of non-performing balances	**3.2**		3.2	
Consumer banking:				
Non-performing loans as a percentage of total balances (excluding charged off balances) (note i)	**3**		4	
Impairment provisions as a percentage of non-performing balances (including charged off balances) (note i)	**83**		81	
Other key ratios	**%**		%	
Loan to deposit ratio (note ii)	**117.7**		117.2	
Liquidity coverage ratio	**140.6**		142.6	

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.

ii. The loan to deposit ratio represents loans and advances to customers divided by (shares + other deposits + amounts due to customers).

[6] Based on market data as at August 2016.

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 increased 17% to £17.5 billion (H1 2015/16: £14.9 billion), representing a market share of 14.5% (H1 2015/16: 13.2%).

Net mortgage lending was £6.0 billion (H1 2015/16: £4.1 billion), a market share of 33.9% (H1 2015/16: 21.2%), of which £5.0 billion was prime lending (H1 2015/16: £2.7 billion) and £1.0 billion related to BTL lending (H1 2015/16: £1.4 billion).

The flow of BTL advances has slowed following our decision to increase the minimum interest coverage ratio from 125% to 145%, with a particular decrease in the proportion of our new BTL lending that is secured on properties located in London.

The average loan to value (LTV) of new lending in the period, weighted by value, increased 2% to 71% (H1 2015/16: 69%) primarily due to our strategy to increase lending to the first time buyer market. House price growth has continued, albeit modestly, resulting in the average LTV of the Group's portfolio reducing slightly to 54% (4 April 2016: 55%). Our residential mortgage arrears have remained flat at 0.45% (4 April 2016: 0.45%) as we continue to benefit from low unemployment and growth in household income. Our arrears levels continue to be significantly lower than the Council of Mortgage Lenders industry average of 1.01%, demonstrating our low risk appetite and strong underwriting standards.

Non-performing balances have reduced by £147 million, with particular improvements in balances past due up to 3 months. Impairment provisions have fallen by £6 million to £96 million (4 April 2016: £102 million) reflecting this improvement and house price growth during the period.

Commercial lending

As a result of deleveraging activity undertaken in recent years, our overall commercial portfolio is increasingly weighted towards registered social landlords, with balances of £7.5 billion (4 April 2016: £7.6 billion), and a portfolio of loans made under the Government's Project Finance initiative amounting to £1.1 billion (4 April 2016: £1.2 billion). These portfolios are fully performing and remain stable, reflecting their low risk nature. The commercial portfolio also includes commercial real estate (CRE) loans of £2.8 billion (4 April 2016: £3.0 billion) and fair value adjustments of £1.7 billion (4 April 2016: £1.4 billion) relating to loans where we have hedged associated financial risks, typically interest rate risk.

We have undertaken £192 million of new CRE lending during the period which has been focused on low risk commercial loans with an average LTV of new business of 51%. The level of impaired balances as a proportion of our total CRE exposure has fallen from 6% at 4 April 2016 to 3%, reflecting resolution of impaired asset positions and improved asset quality.

In line with our managed run-off of the CRE book, it has been concluded that our CRE business is not key to the Society's vision for the future and therefore we have decided to cease new CRE lending. We will maintain a dedicated service for existing CRE customers throughout the remainder of their loan term. We will continue to provide funding to registered social landlords and existing Project Finance customers.

Consumer banking

Despite particularly intense competition in the consumer banking market in recent months, balances have grown modestly reflecting our attractive pricing propositions and loyalty offers. Consumer banking comprises personal loans of £1.9 billion (4 April 2016: £1.9 billion), credit cards of £1.8 billion (4 April 2016: £1.7 billion) and current account overdrafts of £0.2 billion (4 April 2016: £0.2 billion). Asset quality has benefited in the period from previous tightening of our credit risk policies reducing our early arrears rates, and more competitive pricing on personal loans attracting higher quality new business.

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

Financial review (continued)

Other financial assets

Other financial assets of £37.8 billion (4 April 2016: £27.8 billion) comprise cash of £17.2 billion (4 April 2016: £8.8 billion), other liquidity and investment assets held by our Treasury Division of £13.2 billion (4 April 2016: £14.3 billion), derivatives with positive fair values of £6.2 billion (4 April 2016: £3.9 billion), and fair value adjustments and other assets of £1.2 billion (4 April 2016: £0.8 billion).

Levels of liquidity have increased, reflecting both an element of pre-funding of wholesale maturities and an increase in collateral relating to derivatives following the EU referendum. The increased amount of high quality liquidity being held on the balance sheet is reflected in the Liquidity Coverage Ratio (LCR) remaining broadly consistent at 140.6% (4 April 2016: 142.6%), with higher liquidity balances being offset by increased LCR requirements relating to upcoming wholesale funding maturities and increased collateral holdings.

Further details of our treasury portfolios are included in the 'Treasury assets' section of the Business and Risk Report.

Liabilities	**30 September 2016 £m**	4 April 2016 £m
Member deposits	**143,415**	138,715
Debt securities in issue	**43,650**	36,085
Other financial liabilities	**24,941**	21,637
Other liabilities	**2,265**	1,572
Total liabilities	**214,271**	198,009
Members' interests and equity	**11,275**	10,930
Total members' interests, equity and liabilities	**225,546**	208,939
	%	%
Wholesale funding ratio (note i)	**27.2**	24.8

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 the Group's balance sheet, reflecting the substance of the arrangement. Off balance sheet FLS drawings have reduced from £8.5 billion at 4 April 2016 to £8.0 billion at 30 September 2016.

Member deposits

Member deposits have increased by £4.7 billion to £143.4 billion (4 April 2016: £138.7 billion) as we continue to offer competitive savings and current account propositions which provide long term good value and seek to support members in the current low base rate environment. Our market share of savings stock at 30 September 2016 was 10.1% (4 April 2016: 10.2%). Current account credit balances have increased to £16.6 billion (4 April 2016: £14.8 billion) which reflects the increase in our market share of main standard and packaged accounts stock to 7.3%[7] (4 April 2016: 7.1%).

Debt securities in issue

Debt securities in issue of £43.7 billion (4 April 2016: £36.1 billion) are used to raise funding in wholesale markets in order to finance core activities. The increase in outstanding amounts reflects increased issuance activity in the wholesale markets during the period to support planned increased liquidity and pre-fund wholesale maturities in the second half of the year. The wholesale funding ratio has increased to 27.2% (4 April 2016: 24.8%).

Further details on the Group's wholesale funding mix and liquidity holdings are included in the 'Liquidity and funding risk' section of the Business and Risk Report.

[7] Based on market data as at August 2016.

Financial review (continued)

Other financial liabilities

Other financial liabilities have increased from £21.6 billion as at 4 April 2016 to £24.9 billion primarily due to increases in customer and bank deposits of £1.7 billion and issuances of subordinated debt during the period of £1.1 billion.

Capital structure

	30 September 2016 £m	4 April 2016 £m
Capital resources (note i)		
Common Equity Tier 1 (CET1) capital	**8,067**	8,013
Total Tier 1 capital	**9,059**	9,005
Total regulatory capital	**11,706**	10,654
Risk weighted assets	**34,636**	34,475
Leverage exposure	**227,886**	213,181
CRD IV capital ratios	**%**	%
CET1 ratio	**23.3**	23.2
Leverage ratio (note ii)	**4.0**	4.2

Notes:
i. Data in the table is reported under CRD IV on an end point basis.
ii. The leverage ratio is calculated using the Capital Requirements Regulation definition of Tier 1 for the capital amount and the Delegated Act definition of the exposure measure.

CET1 capital resources have increased over the period by £54 million, with £502 million of profit after tax being largely offset by an increase in the pension deficit decreasing the general reserve by £405 million. The pension deficit has significantly increased over the period, driven by changes in the economic environment impacting long-term interest rates and causing the value of the Pension Fund's liabilities to increase significantly. Further details of the pension deficit are included within the 'Pension risk' section of the Business and Risk Report and note 20 of the consolidated interim financial statements.

Risk weighted assets (RWAs) have increased slightly over the period due to higher derivative market values driven by the fall in sterling following the EU referendum. This was partially offset by a reduction in residential mortgage RWAs due to improved book quality from rising house prices, which outweighed the increase in balances. As a result the CET1 ratio has remained broadly stable at 23.3% (4 April 2016: 23.2%).

The modest growth in capital resources, combined with an increase in leverage exposure of £14.7 billion, resulted in a leverage ratio at 30 September 2016 of 4.0% (4 April 2016: 4.2%). The increase in leverage exposure is mainly attributable to net lending in the period and increased liquidity balances.

The Group continues 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, recent regulatory announcements mean that we have better visibility of expectations for future capital requirements. On 8 November, the Bank of England published its policy for the UK Minimum Requirement for own funds and Eligible Liabilities (MREL) framework. In line with our expectations, this confirmed that our MREL requirement from 2020 will be twice our minimum leverage capital requirements plus CRD IV capital buffers. We are confident in our ability to meet this new requirement over the transitional period based on our recent successful issuance of $1.25 billion of Tier 2 securities. We will remain engaged in the development of the regulatory capital framework to ensure we are prepared for any additional changes.

We expect to have a steady state leverage ratio requirement of 3.75% from 2019, which comprises a minimum requirement of 3%, a supplementary leverage ratio buffer of 0.35% and Countercyclical Leverage Ratio Buffer (CCyLB) of 0.4%. The Financial Policy Committee (FPC) could set a CCyLB of up to 0.9% (i.e. a total leverage requirement of 4.25%) if it deems risks to be elevated; however following recent guidance on the CCyLB, Nationwide's minimum leverage requirements are expected to remain at 3% until at least June 2017.

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 key 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 the year end, then this information has not been repeated in this report and can be found in the Business and Risk Report in the Annual Report and Accounts 2016.

As the risks of the organisation are managed on a Group basis, the disclosures in the Business and Risk Report are on a consolidated basis covering the activities of both the Society and its subsidiaries.

Principal risks

Whilst the Group accepts that all business activities involve risk, it seeks to protect members by managing the risks that arise appropriately. The Group adopts an enterprise-wide risk management framework to manage risk; further details of this and the risks managed can be found in the Business and Risk Report in the Annual Report and Accounts 2016. The principal categories of risk inherent within the business remain unchanged, namely:

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

Top and emerging risks

The Group's top and emerging risks are identified through the process outlined in the 'Managing risk' section of the Annual Report and Accounts 2016 and are closely tracked throughout the governance structure. The Group continues to keep these risks under close observation through risk reporting and governance.

The Group's top and emerging risks continue to relate to four key themes:

- Macroeconomic environment
- Cyber attack and business resilience
- Changing face of financial services
- Conduct and compliance challenges

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

Top and emerging risk	Developments in the period
Macroeconomic environment	Since the UK voted to leave the EU in June, this has created increased uncertainty and reduced confidence in the long-term economic outlook. In response, the Bank of England base rate reduced to 0.25%. In addition, UK growth projections have been downgraded following the referendum result If the base rate remains at its current low level for a sustained period or reduces further, this will constrain margins. Furthermore, a move to zero or negative rates, although not expected, may reduce incentives for customers to save, potentially impacting the Group's business model. The Group continues to regularly monitor economic factors, including undertaking regular assessments of how economic stresses may impact its business model. Factors including European and US political changes, a slowdown in China and the impact on earnings and lending risk performance from a domestic or global economic downturn are regularly discussed by the Board and continually evaluated against the Group's principal risks and strategy.

Top and emerging risks (continued)

Top and emerging risk	Developments in the period
Cyber attack and business resilience	The Group continues to make significant investment in transforming its products and delivery channels, and has recently launched a new Mobile Banking application to embrace advances in digital technology. The usage of digital channels continues to increase the risk of cyber security attacks and failures of technology infrastructures. The Group continues to invest in security and detection capabilities designed to ensure it can respond to such threats effectively and has recently announced the appointment of external experts to its IT Strategy and Resilience Committee. During the period, the Group successfully implemented the first change of the base rate since 2009. The Group's plans for dealing with the operational impact of any future rate changes remain under regular review, to ensure that we have the capacity to respond to customer needs.
Changing face of financial services	The Group continues to monitor changes that could impact the structure of the market such as the challenge from new competition as a result of Open Banking (as discussed in the Competition and Markets Authority's (CMA) report 'Making the Banks work harder for you'), and the likely increase in competition that newly ring-fenced banking peers will bring to our core markets.
Conduct and compliance challenges	The EU referendum result has created uncertainties within our operating environment but, as a UK-focused building society, the direct regulatory, conduct and compliance impact of the vote to leave the EU on the Group should be limited. The potential impact of the vote is being considered on an ongoing basis.

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 the Group manages lending risk are available in the Annual Report and Accounts 2016.

The table below summarises the Group's assets subject to lending risk.

Balances subject to lending risk	**30 September 2016**			
	Gross balances	**Less: Impairment provisions**	**Carrying value**	**% of total**
	£m	**£m**	**£m**	**%**
Cash	**17,213**	**-**	**17,213**	**8**
Loans and advances to banks	**3,323**	**-**	**3,323**	**1**
Investment securities – AFS	**9,862**	**-**	**9,862**	**4**
Derivative financial instruments	**6,180**	**-**	**6,180**	**3**
Fair value adjustment for portfolio hedged risk (note i)	**1,197**	**-**	**1,197**	**1**
Investments in equity shares	**57**	**-**	**57**	**-**
	37,832	**-**	**37,832**	**17**
Loans and advances to customers:				
Residential mortgages	**168,356**	**(96)**	**168,260**	**75**
Consumer banking	**3,909**	**(262)**	**3,647**	**2**
Commercial lending (note i)	**13,134**	**(44)**	**13,090**	**6**
Other lending (note ii)	**130**	**(1)**	**129**	**-**
	185,529	**(403)**	**185,126**	**83**
Total	**223,361**	**(403)**	**222,958**	**100**

Lending risk (continued)

Balances subject to lending risk	4 April 2016			
	Gross balances	Less: Impairment provisions	Carrying value	% of total
	£m	£m	£m	%
Cash	8,797	-	8,797	4
Loans and advances to banks	3,591	-	3,591	2
Investment securities – AFS	10,612	-	10,612	5
Derivative financial instruments	3,898	-	3,898	2
Fair value adjustment for portfolio hedged risk (note i)	756	-	756	-
Investments in equity shares	126	-	126	-
	27,780	-	27,780	13
Loans and advances to customers:				
Residential mortgages	162,164	(102)	162,062	79
Consumer banking	3,869	(281)	3,588	2
Commercial lending (note i)	13,197	(59)	13,138	6
Other lending (note ii)	20	(1)	19	-
	179,250	(443)	178,807	87
Total	207,030	(443)	206,587	100

Note:

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 the Group's hedging programmes.

ii. The other lending portfolio includes collateral balances relating to repo transactions.

Further information on the residential mortgages, consumer banking, commercial lending and treasury portfolios is provided in the subsequent sections of this report.

Residential mortgages

The Group's residential mortgages comprise prime and specialist loans. Prime residential mortgages are mainly Nationwide branded advances made through the Group's branch network and intermediary channels; all new specialist lending is limited to buy to let mortgages originated under The Mortgage Works (UK) plc (TMW) brand.

The residential mortgage portfolio has increased to £168 billion (4 April 2016: £162 billion), predominantly driven by strong levels of prime lending, particularly in the first time buyer segment which has increased as a proportion of Group new lending to 35% (H1 2015/16: 27%). The increase in first time buyer lending is partly attributed to the widening of the availability of mortgages at 90% to 95% LTV since September 2015. Our support of this market has been reinforced by a commitment to make at least £10 billion a year available to first time buyers where it is appropriate, provided we are able to lend responsibly and within appetite. This is one of a number of commitments Nationwide has made to the Government, demonstrating our intention to stand by our customers and members as the economy enters a period of uncertainty following the result of the EU referendum.

The growth of the buy to let portfolio has slowed following the decision to increase the minimum interest coverage ratio (ICR) from 125% to 145% and lower the maximum LTV for buy to let borrowing from 80% to 75% in May 2016. These steps were taken in direct response to the new government policy for personal income tax relief for buy to let properties, due to be phased in between April 2017 and March 2021. The new policy for income tax relief will materially affect the cash flow of many investors, including existing investors, and these changes to our lending policy help ensure that buy to let borrowing remains sustainable and affordable.

The PRA published the Supervisory Statement 'Underwriting standards for buy to let contracts' in September 2016, outlining the minimum standards they expect firms to employ as part of their lending decision. Nationwide is reviewing the requirements and will respond accordingly.

Lending risk – Residential mortgages (continued)

The proportion of loans that are more than three months in arrears has remained stable at 0.45% (4 April 2016: 0.45%) and remains materially below the CML industry average of 1.01%.

Lending and new business

The table below summarises the Group's residential mortgages portfolio:

Residential mortgage lending	30 September 2016 £m	%	4 April 2016 £m	%
Prime	**135,088**	**80**	129,973	80
Specialist:				
Buy to let	**29,902**	**18**	28,646	18
Self-certified	**2,209**	**1**	2,338	1
Near prime	**825**	**1**	859	1
Sub prime	**332**	**-**	348	-
	33,268	**20**	32,191	20
Total residential mortgages	**168,356**	**100**	162,164	100

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

Over the coming months the Group's residential mortgage portfolio is expected to shift towards prime lending as the tightening of interest cover and LTV thresholds continue to slow the growth in the buy to let portfolio.

Distribution of new business by borrower type (by value)	Half year to 30 September 2016 %	Half year to 30 September 2015 %
Prime:		
Home movers	**30**	32
First time buyers	**35**	27
Remortgagers	**18**	20
Other	**1**	1
Total prime	**84**	80
Specialist:		
Buy to let new purchases	**4**	8
Buy to let remortgagers	**12**	12
Total specialist	**16**	20
Total new business	**100**	100

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

Lending risk – Residential mortgages (continued)

Lending risk

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

LTV and lending risk concentration

The Group calculates LTV by weighting the account level LTV by loan balance to arrive at an average LTV. This approach is considered to most accurately reflect the exposure at risk to the Group.

Average LTV of loan stock	**30 September 2016**	4 April 2016
	%	%
Prime	**53**	54
Specialist	**59**	61
Group	**54**	55

Average LTV of new business	**Half year to 30 September 2016**	Half year to 30 September 2015
	%	%
Prime	**72**	70
Specialist (buy to let)	**63**	65
Group	**71**	69

Note: The LTV of new business excludes further advances.

LTV distribution of new business	**Half year to 30 September 2016**	Half year to 30 September 2015
	%	%
0% to 60%	**25**	26
60% to 75%	**32**	43
75% to 80%	**9**	9
80% to 85%	**14**	11
85% to 90%	**16**	10
90% to 95%	**4**	1
Over 95%	**-**	-
Total	**100**	100

Although the rate of growth has slowed in some areas, house prices continue to increase, reducing the average LTV of loan stock to 54% (4 April 2016: 55%).

The average LTV of new prime residential mortgages has increased to 72% (H1 2015/16: 70%) with the proportion greater than 80% increasing to 34% (H1 2015/16: 22%) as a direct result of the Group’s strategy to extend its product offering at 95% LTV and support the first time buyer market. The growth in higher LTV lending, which reflects an increased commitment to lending to first time buyers, is monitored closely. Underwriting standards have been maintained which contain tighter credit controls for higher LTV lending. Lending remains within the Group’s appetite.

From May 2016 the maximum LTV for buy to let was lowered from 80% to 75%.

Lending risk – Residential mortgages (continued)

Geographical concentration

Residential mortgage balances by LTV and region 30 September 2016	Greater London £m	Central England £m	Northern England £m	South East England (excluding London) £m	South West England £m	Scotland £m	Wales £m	Northern Ireland £m	Total £m	%
Performing loans										
Fully collateralised										
LTV ratio:										
Up to 50%	**29,119**	**9,638**	**6,494**	**8,593**	**5,474**	**2,878**	**1,268**	**878**	**64,342**	
50% to 60%	**11,940**	**5,597**	**3,830**	**4,691**	**3,047**	**1,644**	**719**	**376**	**31,844**	
60% to 70%	**8,504**	**6,960**	**5,943**	**4,000**	**3,498**	**2,300**	**1,066**	**423**	**32,694**	
70% to 80%	**4,369**	**4,804**	**5,743**	**2,056**	**2,147**	**2,658**	**1,237**	**342**	**23,356**	
80% to 90%	**2,237**	**2,043**	**2,914**	**1,027**	**1,008**	**1,308**	**624**	**273**	**11,434**	
90% to 100%	**126**	**194**	**453**	**110**	**82**	**157**	**104**	**113**	**1,339**	
	56,295	**29,236**	**25,377**	**20,477**	**15,256**	**10,945**	**5,018**	**2,405**	**165,009**	**98.0**
Not fully collateralised										
- Over 100% LTV (A)	**7**	**5**	**37**	**1**	**3**	**21**	**5**	**236**	**315**	**0.2**
- Collateral value on A	***5***	***4***	***32***	***1***	***2***	***20***	***5***	***197***	***266***	
- Negative equity on A	***2***	***1***	***5***	***-***	***1***	***1***	***-***	***39***	***49***	
Total performing loans	**56,302**	**29,241**	**25,414**	**20,478**	**15,259**	**10,966**	**5,023**	**2,641**	**165,324**	**98.2**
Non-performing loans (note i)										
Fully collateralised										
LTV ratio:										
Up to 50%	**553**	**170**	**111**	**129**	**73**	**43**	**26**	**28**	**1,133**	
50% to 60%	**208**	**105**	**77**	**78**	**50**	**26**	**15**	**11**	**570**	
60% to 70%	**83**	**120**	**123**	**70**	**61**	**46**	**20**	**13**	**536**	
70% to 80%	**25**	**105**	**122**	**31**	**40**	**47**	**26**	**12**	**408**	
80% to 90%	**11**	**52**	**99**	**7**	**11**	**25**	**17**	**10**	**232**	
90% to 100%	**1**	**7**	**51**	**1**	**-**	**8**	**13**	**10**	**91**	
	881	**559**	**583**	**316**	**235**	**195**	**117**	**84**	**2,970**	**1.8**
Not fully collateralised										
- Over 100% LTV (B)	**-**	**1**	**9**	**-**	**1**	**2**	**2**	**47**	**62**	**-**
- Collateral value on B	***-***	***1***	***8***	***-***	***1***	***2***	***2***	***37***	***51***	
- Negative equity on B	***-***	***-***	***1***	***-***	***-***	***-***	***-***	***10***	***11***	
Total non-performing loans	**881**	**560**	**592**	**316**	**236**	**197**	**119**	**131**	**3,032**	**1.8**
Total residential mortgages	**57,183**	**29,801**	**26,006**	**20,794**	**15,495**	**11,163**	**5,142**	**2,772**	**168,356**	**100.0**
Geographical concentrations	**34%**	**18%**	**15%**	**12%**	**9%**	**7%**	**3%**	**2%**	**100%**	

Lending risk – Residential mortgages (continued)

Residential mortgage balances by LTV and region 4 April 2016	Greater London £m	Central England £m	Northern England £m	South East England (excluding London) £m	South West England £m	Scotland £m	Wales £m	Northern Ireland £m	Total £m	%
Performing loans										
Fully collateralised										
LTV ratio:										
Up to 50%	26,991	8,795	5,866	7,855	5,051	2,711	1,178	785	59,232	
50% to 60%	12,350	4,971	3,402	4,262	2,733	1,547	637	346	30,248	
60% to 70%	8,465	6,636	5,052	4,363	3,460	2,095	903	390	31,364	
70% to 80%	4,062	5,454	6,282	2,211	2,359	2,776	1,273	371	24,788	
80% to 90%	1,559	2,210	3,135	894	918	1,380	657	271	11,024	
90% to 100%	85	177	901	66	60	232	212	151	1,884	
	53,512	28,243	24,638	19,651	14,581	10,741	4,860	2,314	158,540	97.7
Not fully collateralised										
- Over 100% LTV (A)	7	8	80	1	4	31	13	301	445	0.3
- Collateral value on A	*6*	*7*	*73*	*1*	*3*	*29*	*13*	*248*	*380*	
- Negative equity on A	*1*	*1*	*7*	*-*	*1*	*2*	*-*	*53*	*65*	
Total performing loans	53,519	28,251	24,718	19,652	14,585	10,772	4,873	2,615	158,985	98.0
Non-performing loans (note i)										
Fully collateralised										
LTV ratio:										
Up to 50%	522	161	107	127	73	43	27	26	1,086	
50% to 60%	245	100	68	74	52	28	13	12	592	
60% to 70%	110	131	108	76	60	42	20	12	559	
70% to 80%	29	114	139	42	48	46	24	12	454	
80% to 90%	7	74	98	7	17	28	19	12	262	
90% to 100%	1	14	73	1	2	13	16	7	127	
	914	594	593	327	252	200	119	81	3,080	1.9
Not fully collateralised										
- Over 100% LTV (B)	-	3	25	2	1	3	5	60	99	0.1
- Collateral value on B	*-*	*3*	*22*	*1*	*1*	*3*	*5*	*46*	*81*	
- Negative equity on B	*-*	*-*	*3*	*1*	*-*	*-*	*-*	*14*	*18*	
Total non-performing loans	914	597	618	329	253	203	124	141	3,179	2.0
Total residential mortgages	54,433	28,848	25,336	19,981	14,838	10,975	4,997	2,756	162,164	100.0
Geographical concentrations	33%	18%	16%	12%	9%	7%	3%	2%	100%	

Note:
i. Non-performing loans are all loans which are in arrears, including impaired loans with individually assessed impairment provisions.

The value of non-performing loans in negative equity has reduced to £62 million (4 April 2016: £99 million) due to a combination of increasing house prices and an overall reduction in non-performing loans.

House price growth in London is slowing as weaker investor demand, deteriorating affordability metrics and uncertainty caused by the vote to leave the EU have reduced demand at a time when supply has increased. Whilst there is currently no indication of a significant house price correction, the Group continues to monitor potential exposure to negative equity should house prices reverse. Stress tests have shown that even in the event of an extreme reduction in house prices this would not undermine the Group's strong capital position.

Arrears

Number of cases more than 3 months in arrears as percentage of total book	**30 September 2016 %**	4 April 2016 %
Prime	**0.35**	0.35
Specialist	**0.93**	0.90
Group	**0.45**	0.45
CML industry average	**1.01**	1.04

Lending risk – Residential mortgages (continued)

Impaired loans

Please refer to the Annual Report and Accounts 2016 for details of how the Group identifies impaired loans.

Residential mortgages by payment status	**30 September 2016**			
	Prime lending	**Specialist lending**	**Total**	
	£m	**£m**	**£m**	**%**
Performing:				
Neither past due nor impaired	**133,186**	**32,138**	**165,324**	**98.2**
Non-performing				
Past due up to 3 months	**1,529**	**708**	**2,237**	**1.3**
Impaired:				
Past due 3 to 6 months	**166**	**191**	**357**	**0.2**
Past due 6 to 12 months	**119**	**127**	**246**	**0.2**
Past due over 12 months	**80**	**86**	**166**	**0.1**
Possessions	**8**	**18**	**26**	**-**
Total non-performing loans	**1,902**	**1,130**	**3,032**	**1.8**
Total residential mortgages	**135,088**	**33,268**	**168,356**	**100.0**
Non-performing loans as a % of total residential mortgages	**1.4%**	**3.4%**	**1.8%**	
Impairment provisions (£m)	**25**	**71**	**96**	
Impairment provisions as a % of non-performing balances	**1.3%**	**6.3%**	**3.2%**	
Impairment provisions as a % of total residential mortgages	**0.02%**	**0.21%**	**0.06%**	

Residential mortgages by payment status	4 April 2016			
	Prime lending	Specialist lending	Total	
	£m	£m	£m	%
Performing:				
Neither past due nor impaired	127,986	30,999	158,985	98.0
Non-performing				
Past due up to 3 months	1,621	780	2,401	1.5
Impaired:				
Past due 3 to 6 months	170	188	358	0.2
Past due 6 to 12 months	115	115	230	0.2
Past due over 12 months	75	91	166	0.1
Possessions	6	18	24	-
Total non-performing loans	1,987	1,192	3,179	2.0
Total residential mortgages	129,973	32,191	162,164	100.0
Non-performing loans as a % of total residential mortgages	1.5%	3.7%	2.0%	
Impairment provisions (£m)	25	77	102	
Impairment provisions as a % of non-performing balances	1.3%	6.5%	3.2%	
Impairment provisions as a % of total residential mortgages	0.02%	0.24%	0.06%	

The provision balance has reduced to £96 million (4 April 2016: £102 million). This reflects a lower proportion of non-performing loans particularly in relation to balances which are past due up to 3 months, together with house price growth during the period.

Lending risk – Residential mortgages (continued)

Impairment loss/(reversal) for the period	**Half year to 30 September 2016 £m**	Half year to 30 September 2015 £m
Prime	**1**	(1)
Specialist	**4**	(6)
Total	**5**	(7)

The £5 million residential impairment loss for the period reflects the stable arrears performance and LTV profile, with house price improvements more modest than experienced in the prior year.

Interest only mortgages

The Group does not offer any new advances for prime residential mortgages on an interest only basis. However, the Group has historical balances which were originally advanced as interest only mortgages or where the Group agreed a change in terms to an interest only basis (this option was withdrawn in 2012). The Group manages maturities on interest only mortgages closely, engaging regularly with customers to ensure the loan is redeemed or to agree a strategy for repayment.

The majority of the specialist portfolio is made up of buy to let loans, of which approximately 90% are 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 2016	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**%**
Prime	**66**	**364**	**466**	**1,666**	**14,846**	**17,408**	**12.9**
Specialist	**88**	**184**	**252**	**1,068**	**28,017**	**29,609**	**89.0**
Total	**154**	**548**	**718**	**2,734**	**42,863**	**47,017**	**28.0**

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
4 April 2016	£m	£m	£m	£m	£m	£m	%
Prime	58	396	475	1,731	16,178	18,838	14.5
Specialist	98	174	254	1,002	27,084	28,612	88.9
Total	156	570	729	2,733	43,262	47,450	29.3

The proportion of interest only mortgages included within the prime residential portfolio has continued to fall and now stands at 12.9% (4 April 2016: 14.5%).

Interest only loans which are 'term expired (still open)' are, to the extent they are not otherwise in arrears, reported as performing. They are included within the 'Repair: Term extensions' category in the renegotiated loans tables on the following pages.

Lending risk – Residential mortgages (continued)

Renegotiated loans

Where residential mortgage customers face financial difficulty the Group seeks to find a solution to mitigate losses and, where possible, to support customers through a change in terms, forbearance or repair. Collectively, these loans are classified as renegotiated. Please refer to the Annual Report and Accounts 2016 for details of the Group's policies for renegotiated loans.

The following table provides the loans still on the books at the period end which have been subject to renegotiation (change in terms, forbearance or repair) since 2008:

Residential mortgage balances subject to renegotiation since January 2008 (note i)	Greater London	Central England	Northern England	South East England (excluding London)	South West England	Scotland	Wales	Northern Ireland	Total
30 September 2016	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Change in terms:									
Payment holidays	**844**	**643**	**594**	**429**	**273**	**221**	**105**	**125**	**3,234**
Term extensions (within term)	**2,049**	**1,244**	**1,071**	**881**	**631**	**421**	**228**	**203**	**6,728**
Payment concessions	**300**	**183**	**194**	**112**	**79**	**43**	**40**	**29**	**980**
Interest only conversions	**613**	**302**	**297**	**211**	**157**	**80**	**60**	**82**	**1,802**
	3,806	**2,372**	**2,156**	**1,633**	**1,140**	**765**	**433**	**439**	**12,744**
Elimination of multiple events	**(419)**	**(287)**	**(247)**	**(187)**	**(124)**	**(74)**	**(49)**	**(68)**	**(1,455)**
Total change in terms	**3,387**	**2,085**	**1,909**	**1,446**	**1,016**	**691**	**384**	**371**	**11,289**
Forbearance:									
Temporary interest only concessions	**346**	**320**	**335**	**174**	**111**	**99**	**55**	**58**	**1,498**
Repair:									
Capitalisations	**175**	**102**	**107**	**68**	**41**	**16**	**22**	**9**	**540**
Term extensions	**173**	**99**	**80**	**68**	**55**	**36**	**21**	**21**	**553**
	348	**201**	**187**	**136**	**96**	**52**	**43**	**30**	**1,093**
Elimination of multiple events	**(3)**	**(1)**	**(1)**	**-**	**(1)**	**-**	**-**	**-**	**(6)**
Total repairs	**345**	**200**	**186**	**136**	**95**	**52**	**43**	**30**	**1,087**
Elimination of multiple events	**(286)**	**(229)**	**(226)**	**(128)**	**(87)**	**(55)**	**(42)**	**(45)**	**(1,098)**
Total renegotiated loans	**3,792**	**2,376**	**2,204**	**1,628**	**1,135**	**787**	**440**	**414**	**12,776**
Of which prime/specialist lending:									
Prime	**3,129**	**2,022**	**1,829**	**1,390**	**956**	**724**	**369**	**352**	**10,771**
Specialist	**663**	**354**	**375**	**238**	**179**	**63**	**71**	**62**	**2,005**
Total	**3,792**	**2,376**	**2,204**	**1,628**	**1,135**	**787**	**440**	**414**	**12,776**
Of which loans are still on special terms (note ii):									
Prime	**45**	**32**	**32**	**21**	**14**	**15**	**7**	**5**	**171**
Specialist	**6**	**3**	**3**	**1**	**4**	**1**	**2**	**-**	**20**
Total	**51**	**35**	**35**	**22**	**18**	**16**	**9**	**5**	**191**
Impairment provisions on renegotiated loans:									
Individually assessed	**-**	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**1**
Collectively assessed	**-**	**3**	**5**	**-**	**1**	**1**	**1**	**4**	**15**
Total impairment provisions	**-**	**3**	**6**	**-**	**1**	**1**	**1**	**4**	**16**

Lending risk – Residential mortgages (continued)

Residential mortgage balances subject to renegotiation since January 2008 (note i)	Greater London	Central England	Northern England	South East England (excluding London)	South West England	Scotland	Wales	Northern Ireland	Total
4 April 2016	£m	£m	£m	£m	£m	£m	£m	£m	£m
Change in terms:									
Payment holidays	890	686	627	459	287	234	112	130	3,425
Term extensions (within term)	2,003	1,259	1,087	878	633	427	230	208	6,725
Payment concessions	292	179	190	111	75	41	39	27	954
Interest only conversions	625	311	292	219	163	81	61	79	1,831
	3,810	2,435	2,196	1,667	1,158	783	442	444	12,935
Elimination of multiple events	(396)	(285)	(243)	(186)	(121)	(73)	(48)	(65)	(1,417)
Total change in terms	3,414	2,150	1,953	1,481	1,037	710	394	379	11,518
Forbearance:									
Temporary interest only concessions	356	335	350	182	115	100	56	59	1,553
Repair:									
Capitalisations	180	105	110	72	43	17	22	9	558
Term extensions (at term expiry)	175	95	78	67	53	35	19	19	541
	355	200	188	139	96	52	41	28	1,099
Elimination of multiple events	(3)	(1)	(2)	(1)	(1)	-	-	-	(8)
Total repairs	352	199	186	138	95	52	41	28	1,091
Elimination of multiple events	(290)	(236)	(235)	(133)	(85)	(55)	(43)	(44)	(1,121)
Total renegotiated loans	3,832	2,448	2,254	1,668	1,162	807	448	422	13,041
Of which prime/specialist lending:									
Prime	3,183	2,106	1,895	1,436	988	747	381	362	11,098
Specialist	649	342	359	232	174	60	67	60	1,943
Total	3,832	2,448	2,254	1,668	1,162	807	448	422	13,041
Of which loans are still on special terms: (note ii)									
Prime	42	34	27	23	14	15	6	3	164
Specialist	5	5	7	3	1	1	1	1	24
Total	47	39	34	26	15	16	7	4	188
Impairment provisions on renegotiated loans:									
Individually assessed	-	-	1	-	-	-	-	1	2
Collectively assessed	-	2	4	1	1	1	1	3	13
Total impairment provisions	-	2	5	1	1	1	1	4	15

Notes:

i. Information on renegotiated balances is reported since January 2008, reflecting the point in time from which this data was captured for reporting purposes.

ii. Special terms refer to loans which are actively subject to a payment holiday, a payment concession or a temporary interest only concession. They do not include term extensions, permanent interest only conversions or capitalisations.

For those cases that remain on special terms the average LTV is comparable with the overall stock position at 53% (4 April 2016: 55%).

Consumer banking

The Group's consumer banking portfolio comprises unsecured balances for overdrawn current accounts, credit cards and personal loans. During the period, total balances have increased by 1% to £3,909 million (4 April 2016: £3,869 million).

A number of new initiatives have been successfully launched during this period to meet more member needs. These include the introduction of a student account, which is expected to drive growth in both the number of accounts and balances. The credit risk of the portfolio, including any new segments, will be closely monitored and managed.

Lending risk – Consumer banking (continued)

The table below summarises the Group's consumer banking portfolio:

Consumer banking balances	30 September 2016		4 April 2016	
	£m	%	£m	%
Overdrawn current accounts	**198**	**5**	247	6
Personal loans	**1,955**	**50**	1,901	49
Credit cards	**1,756**	**45**	1,721	45
Total consumer banking	**3,909**	**100**	3,869	100

Despite particularly intense competition in the consumer banking market in recent months, balances have grown modestly reflecting our attractive pricing propositions and loyalty offers.

The difference in overdrawn current account balances between April 2016 and September 2016 is predominantly due to the position of the reporting date within the month.

Impaired loans

The Group monitors and reports lending risk on consumer banking portfolios primarily on delinquency status, since no security is held against the loans.

Please refer to the Annual Report and Accounts 2016 for details of the Group's processes for impaired loans.

Consumer banking by payment due status	30 September 2016				
	Overdrawn current accounts	Personal loans	Credit cards	Total	
	£m	£m	£m	£m	%
Performing:					
Neither past due nor impaired	**164**	**1,822**	**1,607**	**3,593**	**92**
Non-performing:					
Past due up to 3 months	**13**	**38**	**28**	**79**	
Impaired:					
Past due 3 to 6 months	**3**	**10**	**11**	**24**	
Past due 6 to 12 months	**2**	**11**	**2**	**15**	
Past due over 12 months	**3**	**15**	**-**	**18**	
	21	**74**	**41**	**136**	**3**
Charged off (note i)	**13**	**59**	**108**	**180**	**5**
Total non-performing	**34**	**133**	**149**	**316**	
Total consumer banking lending	**198**	**1,955**	**1,756**	**3,909**	**100**
Non-performing loans as a % of total (excluding charged off balances)	**11%**	**4%**	**2%**	**3%**	
Impairment provisions excluding charged off balances (£m)	**12**	**44**	**38**	**94**	
Impairment provisions on charged off balances (£m)	**12**	**55**	**101**	**168**	
Total impairment provisions (£m)	**24**	**99**	**139**	**262**	
Impairment provisions as a % of non-performing loans (including charged off balances)	**71%**	**74%**	**93%**	**83%**	
Impairment provisions as a % of total balances	**12%**	**5%**	**8%**	**7%**	

Lending risk – Consumer banking (continued)

Consumer banking by payment due status	4 April 2016				
	Overdrawn current accounts	Personal loans	Credit cards	Total	
	£m	£m	£m	£m	%
Performing:					
Neither past due nor impaired	206	1,742	1,576	3,524	91
Non-performing:					
Past due up to 3 months	16	42	27	85	
Impaired:					
Past due 3 to 6 months	4	11	11	26	
Past due 6 to 12 months	3	11	3	17	
Past due over 12 months	4	16	-	20	
	27	80	41	148	4
Charged off (note i)	14	79	104	197	5
Total non-performing	41	159	145	345	
Total consumer banking lending	247	1,901	1,721	3,869	100
Non-performing loans as a % of total (excluding charged off balances)	11%	4%	2%	4%	
Impairment provisions excluding charged off balances (£m)	13	46	38	97	
Impairment provisions on charged off balances (£m)	12	75	97	184	
Total impairment provisions (£m)	25	121	135	281	
Impairment provisions as a % of non-performing balances (including charged off balances)	61%	76%	93%	81%	
Impairment provisions as % of total balances	10%	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.

The performance and risk profile of the portfolio has improved during in the period. Provision balances have reduced primarily as a result of £17 million of expected write offs in relation to charged off balances within the personal loans portfolio. Non-performing balances (excluding charged off amounts) have decreased by £12 million to £136 million, driven by a reduction in early arrears in both the current account and personal loan portfolios.

Impairment losses

Impairment losses for the period	**Overdrawn current accounts**	**Personal loans**	**Credit cards**	**Total**
	£m	**£m**	**£m**	**£m**
Half year to 30 September 2016	**4**	**11**	**17**	**32**
Half year to 30 September 2015	5	12	16	33

Lending risk – Consumer banking (continued)

Renegotiated loans

The Group's approach is to reduce lending risk through good lending decisions. When customers do face financial difficulty the Group seeks to find a solution to support the customer and to mitigate losses, through either a proactive management of exposure, forbearance or arrears management. Collectively, loans subject to these actions are classified as renegotiated. Please refer to the Annual Report and Accounts 2016 for details of the Group's processes for renegotiating loans.

The balances at the balance sheet date which have been subject to a change in terms, forbearance or repair at any point since March 2010 are summarised in the table below. It is possible for borrowers to have more than one type of renegotiation and in this instance they are shown in both categories and multiple events are eliminated.

Balances subject to renegotiation since March 2010 (note i) **30 September 2016**	**Overdrawn current accounts** **£m**	**Personal loans** **£m**	**Credit cards** **£m**	**Total** **£m**
Change in terms	**27**	**117**	**7**	**151**
Forbearance	**15**	**28**	**22**	**65**
Repair	**22**	**1**	**17**	**40**
Gross total	**64**	**146**	**46**	**256**
Elimination of multiple events	**(32)**	**(17)**	**(6)**	**(55)**
Total	**32**	**129**	**40**	**201**
Of which loans still on renegotiated terms	**19**	**91**	**15**	**125**

Balances subject to renegotiation since March 2010 (note i) 4 April 2016	Overdrawn current accounts £m	Personal loans £m	Credit cards £m	Total £m
Change in terms	29	126	8	163
Forbearance	16	30	23	69
Repair	21	1	19	41
Gross total	66	157	50	273
Elimination of multiple events	(32)	(19)	(8)	(59)
Total	34	138	42	214
Of which loans still on renegotiated terms	21	95	17	133

Note:

i. Renegotiated balances information for consumer banking is reported since March 2010, reflecting the point in time from which this data was captured for reporting purposes.

Lending risk (continued)

Commercial lending

The Group holds a reducing portfolio of commercial loans. The registered social landlord and Project Finance assets make up 76% of the portfolio, are fully performing and remain stable. The commercial real estate (CRE) balances have been in active run-off since 2012 as part of the Group's strategy to dispose of non-core CRE assets.

Following a strategic review of the CRE business, it has been concluded that this is no longer key to the Group's vision for the future and as such the decision has been made to cease any further lending to new and existing CRE customers. The Group's book of existing CRE loans will continue to run off in line with their contractual terms. We will continue to maintain a dedicated service for each existing CRE customer throughout the remainder of their loan term. This will ultimately culminate in the closure of our CRE business.

Nationwide will continue to provide funding to registered social landlords and existing Project Finance customers.

The Group's commercial loan portfolio comprises the following:

Commercial lending balances	**30 September 2016**		4 April 2016	
	£m	**%**	£m	%
Commercial real estate (CRE)	**2,764**	**24**	3,009	25
Registered social landlords (note i)	**7,532**	**66**	7,625	65
Project Finance (note ii)	**1,158**	**10**	1,197	10
Total commercial lending	**11,454**	**100**	11,831	100
Fair value adjustment for micro hedged risk	**1,680**		1,366	
Total	**13,134**		13,197	

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.

The registered social landlord portfolio, which represents 66% (4 April 2016: 65%) of total commercial lending balances, is long-term and low risk in nature. The portfolio is risk rated using the Group's internal rating models with the major drivers being financial strength, independent viability assessment ratings provided by the Homes and Communities Agency and the type and size of the registered social landlord. The distribution of exposures is weighted more towards the stronger risk ratings and, against a backdrop of a long history of zero defaults, the risk profile of the portfolio remains low.

The Project Finance portfolio is secured against contractual cash flows from projects procured under the UK Private Finance Initiative rather than physical assets. The majority of loans are secured on projects which are now operational and benefiting from secure long term cash flows, with only one case remaining in the construction phase.

There have been no losses incurred on either the registered social landlord or Project Finance portfolios, no amounts are in arrears and there are no instances of forbearance.

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. The Group adopts robust credit management policies and processes designed to recognise and manage the risks arising, or likely to arise, from the portfolio.

The following table shows the CRE portfolio split by LTV and region:

CRE lending balances by LTV and region	London	South East	Rest of UK (note i)	Total	
30 September 2016	**£m**	**£m**	**£m**	**£m**	**%**
Performing loans					
Fully collateralised					
LTV ratio (note ii):					
Less than 25%	**238**	**20**	**53**	**311**	
25% to 50%	**746**	**183**	**340**	**1,269**	
51% to 75%	**422**	**131**	**408**	**961**	
76% to 90%	**3**	**4**	**77**	**84**	
91% to 100%	**1**	**12**	**7**	**20**	
	1,410	**350**	**885**	**2,645**	**96**
Not fully collateralised					
- Over 100% LTV (A)	**-**	**-**	**5**	**5**	**-**
- Collateral value on A	***-***	***-***	***4***	***4***	
- Negative equity on A	***-***	***-***	***1***	***1***	
Total performing loans	**1,410**	**350**	**890**	**2,650**	**96**
Non-performing loans					
Fully collateralised					
LTV ratio (note iii):					
Less than 25%	**6**	**-**	**-**	**6**	
25% to 50%	**5**	**5**	**7**	**17**	
51% to 75%	**6**	**3**	**12**	**21**	
76% to 90%	**-**	**1**	**15**	**16**	
91% to 100%	**-**	**-**	**4**	**4**	
	17	**9**	**38**	**64**	**2**
Not fully collateralised					
- Over 100% LTV (B)	**2**	**12**	**36**	**50**	**2**
- Collateral value on B	***-***	***2***	***20***	***22***	
- Negative equity on B	***2***	***10***	***16***	***28***	
Total non-performing loans	**19**	**21**	**74**	**114**	**4**
Total CRE loans	**1,429**	**371**	**964**	**2,764**	**100**
Geographical concentration	**52%**	**13%**	**35%**	**100%**	

Lending risk – Commercial lending (continued)

CRE lending balances by LTV and region 4 April 2016	London £m	South East £m	Rest of UK (note i) £m	Total £m	%
Performing loans					
Fully collateralised					
LTV ratio (note ii):					
Less than 25%	136	24	60	220	
25% to 50%	1,021	219	419	1,659	
51% to 75%	329	111	390	830	
76% to 90%	3	13	46	62	
91% to 100%	1	-	5	6	
	1,490	367	920	2,777	92
Not fully collateralised					
- Over 100% LTV (A)	-	3	3	6	-
- Collateral value on A	*-*	*2*	*2*	*4*	
- Negative equity on A	*-*	*1*	*1*	*2*	
Total performing loans	1,490	370	923	2,783	92
Non-performing loans					
Fully collateralised					
LTV ratio (note iii):					
Less than 25%	17	-	2	19	
25% to 50%	10	9	5	24	
51% to 75%	8	5	17	30	
76% to 90%	3	-	18	21	
91% to 100%	-	-	6	6	
	38	14	48	100	4
Not fully collateralised					
- Over 100% LTV (B)	7	52	67	126	4
- Collateral value on B	*5*	*36*	*47*	*88*	
- Negative equity on B	*2*	*16*	*20*	*38*	
Total non-performing loans	45	66	115	226	8
Total CRE loans	1,535	436	1,038	3,009	100
Geographical concentration	51%	14%	35%	100%	

Notes:
i Includes lending to borrowers in the Channel Islands.
ii. The LTV ratio is calculated using the gross 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.

There have been no significant changes to geographic concentrations in the book and overall credit quality has continued to improve.

Non-performing loans have reduced and now represent 4% of CRE balances (4 April 2016: 8%), whilst both the proportion of partially collateralised non-performing loans and the shortfall on collateral for non-performing loans have also reduced. These changes reflect the impact of improving book performance and managed exit activity to reduce exposure to assets that were outside of the Group’s risk appetite or did not align to the Group’s lending strategy.

Lending risk – Commercial lending (continued)

Credit risk concentrations

The following table provides details of the Group's sectoral and regional CRE concentrations together with an impairment analysis in respect of these concentrations:

CRE lending balances and impairment provisions by type and region 30 September 2016	**London £m**	**South East £m**	**Rest of UK (note i) £m**	**Total £m**
Retail	**438**	**207**	**269**	**914**
Office	**198**	**61**	**215**	**474**
Residential	**706**	**46**	**266**	**1,018**
Industrial and warehouse	**29**	**32**	**130**	**191**
Leisure and hotel	**47**	**24**	**67**	**138**
Other	**11**	**1**	**17**	**29**
Total CRE lending	**1,429**	**371**	**964**	**2,764**
Impairment provision:				
Retail	**1**	**8**	**3**	**12**
Office	**2**	**1**	**2**	**5**
Residential	**1**	**-**	**5**	**6**
Industrial and warehouse	**-**	**-**	**12**	**12**
Leisure and hotel	**-**	**1**	**6**	**7**
Other	**-**	**-**	**2**	**2**
Total impairment provisions	**4**	**10**	**30**	**44**

CRE lending balances and impairment provisions by type and region 4 April 2016	London £m	South East £m	Rest of UK (note i) £m	Total £m
Retail	459	235	317	1,011
Office	201	69	208	478
Residential	666	71	256	993
Industrial and warehouse	29	36	158	223
Leisure and hotel	88	25	87	200
Other	92	-	12	104
Total CRE lending	1,535	436	1,038	3,009
Impairment provision:				
Retail	2	12	8	22
Office	4	1	3	8
Residential	1	-	5	6
Industrial and warehouse	-	-	12	12
Leisure and hotel	1	-	7	8
Other	-	-	3	3
Total impairment provisions	8	13	38	59

Note:
i. 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 made against the CRE portfolio, as set out below.

CRE lending balances by payment due status	**30 September 2016**		4 April 2016	
	£m	**%**	£m	%
Performing:				
Neither past due nor impaired	**2,650**	**96**	2,783	92
Non-performing:				
Past due up to 3 months but not impaired (note i)	**34**	**1**	55	2
Impaired (note ii):				
Past due up to 3 months	**27**	**1**	115	4
Past due 3 to 6 months	**16**	**-**	21	1
Past due 6 to 12 months	**18**	**1**	4	-
Past due over 12 months	**19**	**1**	28	1
Possessions (note iii)	**-**	**-**	3	-
Total non-performing balances	**114**	**4**	226	8
Total	**2,764**	**100**	3,009	100
Impairment provisions				
Individual	**39**	**89**	54	92
Collective	**5**	**11**	5	8
Total impairment provisions	**44**	**100**	59	100
Individual provisions as % of impaired balances		**49**		32
Total provisions as % of non-performing balances		**39**		26
Total provisions as % of total gross balances		**2**		2
Estimated collateral:				
Against loans past due but not impaired	**34**	**100**	55	100
Against impaired loans	**52**	**65**	133	78
Total collateral	**86**	**75**	188	83

Notes:
i. The status 'past due up to 3 months but not impaired' includes any asset where a payment due under 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 a provision is held.
iii. Possession balances represent loans for which the Group has taken ownership of security pending sale. Assets in possession are realised to derive the maximum benefit for all interested parties. The Group does not occupy or otherwise use for any purposes the repossessed assets.

Total non-performing loans, before provisions, have reduced by £112 million to £114 million, with a corresponding reduction of £15 million in total impairment provisions, reflecting the managed exit activity, improving book performance and an improvement in market conditions in the early part of the period.

Impairment reversal	**Half year to 30 September 2016**	Half year to 30 September 2015
	£m	£m
Impairment reversal for the period	**(5)**	(27)

Lending risk – Commercial lending (continued)

The improved CRE market conditions, including increased liquidity and capital values, have resulted in a net impairment reversal of £5 million. The higher reversal in the previous year reflects higher impaired balances impacted by improving market conditions.

Forbearance

The table below provides details of the CRE lending that is currently subject to forbearance, split by the concession events agreed. Please refer to the Annual Report and Accounts 2016 for details of the Group's policies for classifying lending in forbearance.

CRE lending subject to forbearance	**30 September 2016**		4 April 2016	
	£m	**%**	£m	%
Covenant breach	**39**	**8**	54	9
Extension at maturity	**65**	**13**	42	7
Multiple forbearance events	**384**	**78**	484	82
Other	**6**	**1**	8	2
Total	**494**	**100**	588	100

There are no instances of forbearance in either the registered social landlord or Project Finance portfolios.

CRE exposures currently subject to forbearance have decreased to £494 million, principally as a result of the controlled exit from non-core higher risk loans, and now represent 18% of CRE loan balances (4 April 2016: 20%).

Treasury assets

The Group's treasury portfolio is held primarily for liquidity management purposes and, in the case of derivatives, for market risk management.

Treasury asset balances	**30 September 2016 £m**	4 April 2016 £m
Cash	**17,213**	8,797
Loans and advances to banks	**3,323**	3,591
Investment securities	**9,919**	10,738
Treasury liquidity and investment portfolio	**30,455**	23,126
Derivative assets (note i)	**6,180**	3,898
Total treasury portfolio	**36,635**	27,024

Note:

i. Derivatives are classified as assets where their fair value is positive and liabilities where their fair value is negative. At 30 September 2016, the Group had derivative liabilities of £3,972 million (4 April 2016: £3,463 million).

Cash has increased to £17,213 million (4 April 2016: £8,797 million), reflecting the pre-funding of wholesale and Bank of England Funding for Lending Scheme (FLS) maturities. Legacy out of policy assets, included within investment securities, have reduced from £423 million to £371 million during the period through ongoing sales, maturities and amortisation. An impairment loss of £5 million (H1 2015/16: £nil) has been recognised in the income statement in respect of one asset held within the out of policy portfolio.

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 the Group's risk governance framework, details of which are provided in the Annual Report and Accounts 2016.

Lending risk – Treasury assets (continued)

Liquidity and investment portfolio

The Group's liquidity and investment portfolio held on the balance sheet at 30 September 2016 of £30,455 million (4 April 2016: £23,126 million) is held in two separate portfolios: liquid assets and other securities. The size of the portfolio fluctuates with movements reflecting legacy asset disposals, market prices and the Group's 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 2016	**£m**	**AAA %**	**AA %**	**A %**	**Other %**	**UK %**	**US %**	**Europe %**	**Other %**
Liquid assets:									
Cash and reserves at central banks	**17,213**	**-**	**89**	**11**	**-**	**89**	**-**	**11**	**-**
Government bonds	**5,875**	**5**	**95**	**-**	**-**	**79**	**12**	**9**	**-**
Supranational bonds	**464**	**88**	**12**	**-**	**-**	**-**	**-**	**-**	**100**
Covered bonds	**1,018**	**100**	**-**	**-**	**-**	**53**	**-**	**34**	**13**
Residential mortgage backed securities (RMBS)	**1,026**	**100**	**-**	**-**	**-**	**60**	**-**	**40**	**-**
Asset backed securities (other)	**265**	**100**	**-**	**-**	**-**	**66**	**-**	**34**	**-**
Liquid assets total	**25,861**	**11**	**81**	**8**	**-**	**82**	**3**	**13**	**2**
Other securities:									
RMBS	**422**	**25**	**13**	**52**	**10**	**74**	**-**	**23**	**3**
Commercial mortgage backed securities (CMBS)	**36**	**-**	**13**	**69**	**18**	**18**	**82**	**-**	**-**
Collateralised loan obligations	**494**	**84**	**16**	**-**	**-**	**85**	**15**	**-**	**-**
Covered bonds	**34**	**-**	**-**	**100**	**-**	**-**	**-**	**100**	**-**
Student loans	**132**	**20**	**50**	**30**	**-**	**-**	**100**	**-**	**-**
Other Investments	**153**	**-**	**33**	**26**	**41**	**39**	**28**	**33**	**-**
Other securities total	**1,271**	**43**	**20**	**28**	**9**	**63**	**22**	**14**	**1**
Loans and advances to banks (note ii)	**3,323**	**-**	**47**	**38**	**15**	**74**	**4**	**16**	**6**
Total	**30,455**	**12**	**75**	**12**	**1**	**80**	**4**	**13**	**3**

Liquidity and investment portfolio by credit rating (note i) 4 April 2016	£m	AAA %	AA %	A %	Other %	UK %	US %	Europe %	Other %
Liquid assets:									
Cash and reserves at central banks	8,797	99	-	1	-	90	-	10	-
Government bonds	6,321	82	18	-	-	75	14	11	-
Supranational bonds	522	90	10	-	-	-	-	-	100
Covered bonds	980	100	-	-	-	52	-	36	12
Residential mortgage backed securities (RMBS)	1,068	100	-	-	-	65	-	35	-
Asset backed securities (other)	318	100	-	-	-	62	-	38	-
Liquid assets total	18,006	92	7	1	-	78	5	13	4
Other securities:									
RMBS (note iii)	563	20	15	54	11	72	-	25	3
Commercial mortgage backed securities (CMBS)	40	-	16	67	17	16	84	-	-
Collateralised loan obligations	528	84	13	3	-	78	22	-	-
Covered bonds	31	-	-	100	-	-	-	100	-
Student loans (note iii)	145	22	50	26	2	6	94	-	-
Other investments	222	-	28	50	22	28	50	22	-
Other securities total	1,529	39	19	34	8	58	26	15	1
Loans and advances to banks (note ii)	3,591	25	19	31	25	68	9	11	12
Total	23,126	79	10	7	4	75	7	13	5

Notes:
i. Ratings used are obtained from Standard & Poor's (S&P) in the majority of cases, from Moody's if there is no S&P rating available, and internal ratings are used if neither is available.
ii. Loans and advances to banks includes derivative collateral (CSA) and reverse repo balances.
iii. Comparatives have been restated for the reclassification of certain amounts based on underlying assets.

The change in credit rating profile of the liquidity and investment portfolio primarily reflects Standard & Poor's (S&P) downgrade of the UK from AAA to AA in June 2016.

Lending risk – Treasury assets (continued)

Country exposures

The Group holds £125 million (4 April 2016: £162 million) of securities which are domiciled in the peripheral Eurozone countries; these are all out of policy legacy assets. This exposure has decreased by 23% in the period due primarily to the disposal of Italian and Spanish mortgage backed assets and scheduled amortisation. The Group continues to actively manage these exposures.

In advance of the maturity of euro-denominated debt during the second half of the year, the Group's holding of cash in Ireland has been increased from £871 million to £1,927 million.

The following table summarises the Group's exposure to issuers outside the UK. The exposures are shown at their balance sheet carrying values.

Country exposures	**Cash**	**Government bonds**	**Mortgage backed securities**	**Covered bonds**	**Supra-national bonds**	**Loans to banks**	**Other corporate (note i)**	**Other assets**	**Total**
30 September 2016	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Finland	**-**	**246**	**-**	**25**	**-**	**-**	**-**	**-**	**271**
France	**-**	**-**	**-**	**58**	**-**	**-**	**2**	**62**	**122**
Germany	**-**	**236**	**-**	**-**	**-**	**264**	**-**	**77**	**577**
Ireland	**1,927**	**-**	**-**	**-**	**-**	**30**	**-**	**-**	**1,957**
Italy	**-**	**-**	-	**-**	**-**	**-**	**3**	**-**	**3**
Netherlands	**-**	**44**	**417**	**-**	**-**	**-**	**-**	**-**	**461**
Portugal	**-**	**-**	**23**	**-**	**-**	**-**	**-**	**-**	**23**
Spain	**-**	**-**	**65**	**34**	**-**	**-**	**-**	**-**	**99**
Total Eurozone	**1,927**	**526**	**505**	**117**	**-**	**294**	**5**	**139**	**3,513**
USA	**10**	**725**	**30**	**-**	**-**	**163**	**-**	**249**	**1,177**
Rest of world (note ii)	**-**	**-**	**13**	**399**	**464**	**398**	**-**	**-**	**1,274**
Total	**1,937**	**1,251**	**548**	**516**	**464**	**855**	**5**	**388**	**5,964**

Country exposures	Cash	Government bonds	Mortgage backed securities	Covered bonds	Supra-national bonds	Loans to banks	Other corporate (note i)	Other assets	Total
4 April 2016	£m	£m	£m	£m	£m	£m	£m	£m	£m
Finland	-	242	-	23	-	-	-	-	265
France	-	-	-	52	-	60	4	66	182
Germany	-	365	-	-	-	107	3	102	577
Ireland	871	-	-	-	-	18	-	-	889
Italy	-	-	21	-	-	-	3	-	24
Netherlands	-	82	385	-	-	-	-	-	467
Portugal	-	-	22	-	-	-	-	-	22
Spain	-	-	85	31	-	-	-	-	116
Total Eurozone	871	689	513	106	-	185	10	168	2,542
USA	8	902	35	-	-	350	-	365	1,660
Rest of world (note ii)	-	-	17	383	522	627	-	-	1,549
Total	879	1,591	565	489	522	1,162	10	533	5,751

Notes:

i. Other corporate exposures are held via a European commercial loan facility reported as part of loans and advances to customers.

ii. Rest of world exposure is to Australia, Canada, Denmark, Norway, Sweden and Switzerland.

None of the Group's exposures to Eurozone countries detailed in the table above are in default, and the Group has not incurred any impairment on these assets in the period.

Lending risk – Treasury assets (continued)

Derivative financial instruments

The Group uses derivatives to reduce exposure to market risks, although the application of accounting rules can create volatility in the income statement. Details of the Group's market standard approach to derivative transactions are provided in the Annual Report and Accounts 2016.

The fair value of derivative assets at 30 September 2016 grew to £6,180 million (4 April 2016: £3,898 million). This is due to an increase in the value of derivatives held to hedge the Group's foreign currency liabilities, following the fall in the sterling exchange rate after the UK voted to leave the EU. The fair value of derivative liabilities was £3,972 million (4 April 2016: £3,463 million).

As a result of CSA netting arrangements, outstanding transactions with the same counterparty can be offset and settled net following a default or other predetermined event. Under CSA arrangements netting benefits of £2,858 million (4 April 2016: £2,020 million) are available and £3,226 million of collateral is held (4 April 2016: £1,804 million); cash is the only collateral held.

The following table shows the exposure to counterparty credit risk for derivative contracts after netting benefits and collateral:

Derivative credit exposure	**30 September 2016**				4 April 2016			
Counterparty credit quality	**AA**	**A**	**BBB**	**Total**	AA	A	BBB	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Gross positive fair value of contracts	**2,386**	**3,209**	**585**	**6,180**	1,128	2,770	-	3,898
Netting benefits	**(998)**	**(1,293)**	**(567)**	**(2,858)**	(532)	(1,488)	-	(2,020)
Net current credit exposure	**1,388**	**1,916**	**18**	**3,322**	596	1,282	-	1,878
Collateral	**(1,360)**	**(1,857)**	**(9)**	**(3,226)**	(580)	(1,224)	-	(1,804)
Net derivative credit exposure	**28**	**59**	**9**	**96**	16	58	-	74

Financial risk

Financial risk is the risk of the Group 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 the Group'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. The Group's exposure to market risk has not changed significantly since the financial year end; further information is available in the Annual Report and Accounts 2016.

Liquidity and funding risk

The Group's liquidity and funding levels continue to be within Board risk appetite and regulatory requirements.

The Group monitors its position relative to internal risk appetite and the regulatory short-term liquidity stress metric, the Liquidity Coverage Ratio (LCR). The Group's LCR at 30 September 2016 was 140.6% (4 April 2016: 142.6%), which reflects the Group's strategy of maintaining a LCR above 100% and represents a surplus to the UK regulatory minimum requirement of 80%, which will rise to 100% by January 2018.

The Group also monitors its position against the longer-term funding metric, the Net Stable Funding Ratio (NSFR), which is due to become a regulatory standard in January 2018. Based on interpretations of current regulatory requirements and guidance, the Group's NSFR at 30 September 2016 was 130.5% (4 April 2016: 127.9%) which exceeds the expected 100% minimum future requirement.

The Group monitors liquidity and funding risks on an ongoing basis. This includes consideration of the current geopolitical uncertainty, such as the impact of the UK's vote to leave the EU and the potential for a sustained global economic slowdown, which could have an impact on funding markets.

Overall, the Group's stable and diverse funding base and sufficient holdings of high-quality liquid assets combine to ensure that there is no significant risk that liabilities cannot be met as they fall due.

Further details of the Group's policies for the management of liquidity and funding risk are contained within the Annual Report and Accounts 2016.

Funding profile

Assets	**30 September 2016 £bn**	4 April 2016 £bn	**Liabilities**	**30 September 2016 £bn**	4 April 2016 £bn
Retail mortgages	**168.3**	162.1	Retail funding	**149.4**	144.9
Treasury assets (including liquidity portfolio)	**30.5**	23.1	Wholesale funding	**55.3**	45.8
Other retail lending	**3.6**	3.6	Capital and reserves	**14.6**	13.2
Commercial/Other lending	**13.2**	13.1	Other liabilities	**6.2**	5.0
Other assets	**9.9**	7.0			
Total	**225.5**	208.9	**Total**	**225.5**	208.9

The Group's loan to deposit ratio at 30 September 2016 was 117.7% (4 April 2016: 117.2%).

Financial risk – Liquidity and funding risk (continued)

Funding risk

Wholesale funding

On-balance sheet wholesale funding has increased by £9.5 billion to £55.3 billion, as set out in the table below. This reflects the ongoing prudent management of the Group's liquidity and funding, including an element of pre-funding of wholesale and Bank of England Funding for Lending Scheme (FLS) maturities. The wholesale funding portfolio is made up of a range of secured and unsecured instruments to ensure the Group has a diversified funding base across a range of instruments, currencies, maturities and investor types.

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

Wholesale funding currency	**30 September 2016**						4 April 2016					
	GBP £bn	**EUR £bn**	**USD £bn**	**Other £bn**	**Total £bn**	**% of total**	GBP £bn	EUR £bn	USD £bn	Other £bn	Total £bn	% of total
Repo and other secured agreements	**0.1**	**0.2**	**0.2**	**-**	**0.5**	**1**	-	-	-	-	-	-
Deposits, including PEB balances	**9.5**	**1.7**	**0.1**	**-**	**11.3**	**20**	9.0	0.5	0.2	-	9.7	21
Certificates of deposit	**4.2**	**0.3**	**0.3**	**-**	**4.8**	**9**	4.7	-	0.4	-	5.1	11
Commercial paper	**-**	**-**	**2.6**	**-**	**2.6**	**5**	0.2	-	1.1	-	1.3	3
Covered bonds	**3.3**	**12.1**	**-**	**0.2**	**15.6**	**28**	2.5	11.1	-	0.2	13.8	30
Medium term notes	**2.8**	**7.1**	**3.5**	**0.8**	**14.2**	**25**	2.3	4.8	2.2	0.6	9.9	22
Securitisations	**1.8**	**1.3**	**1.8**	**-**	**4.9**	**9**	1.9	1.2	1.6	-	4.7	10
Other	**0.3**	**0.7**	**0.1**	**0.3**	**1.4**	**3**	0.2	1.0	0.1	-	1.3	3
Total	**22.0**	**23.4**	**8.6**	**1.3**	**55.3**	**100**	20.8	18.6	5.6	0.8	45.8	100

To mitigate cross-currency refinancing risk, the Group 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 2016	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**
Repo and other secured agreements	**0.5**	**-**	**-**	**-**	**0.5**	**-**	**-**	**0.5**
Deposits, including PEB balances	**6.0**	**1.6**	**1.8**	**1.7**	**11.1**	**0.2**	**-**	**11.3**
Certificates of deposit	**1.2**	**2.3**	**1.3**	**-**	**4.8**	**-**	**-**	**4.8**
Commercial paper	**0.4**	**2.2**	**-**	**-**	**2.6**	**-**	**-**	**2.6**
Covered bonds	**1.4**	**-**	**0.1**	**0.7**	**2.2**	**0.8**	**12.6**	**15.6**
Medium term notes	**-**	**-**	**-**	**1.1**	**1.1**	**1.1**	**12.0**	**14.2**
Securitisations	**1.0**	**-**	**0.3**	**0.7**	**2.0**	**0.5**	**2.4**	**4.9**
Other	**-**	**-**	**-**	**-**	**-**	**-**	**1.4**	**1.4**
Total	**10.5**	**6.1**	**3.5**	**4.2**	**24.3**	**2.6**	**28.4**	**55.3**
Of which secured	**2.9**	**-**	**0.4**	**1.4**	**4.7**	**1.3**	**16.1**	**22.1**
Of which unsecured	**7.6**	**6.1**	**3.1**	**2.8**	**19.6**	**1.3**	**12.3**	**33.2**
% of total	**19.0**	**11.0**	**6.3**	**7.6**	**43.9**	**4.7**	**51.4**	**100.0**

Financial risk – Liquidity and funding risk (continued)

Wholesale funding – residual maturity 4 April 2016	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
Repo and other secured agreements	-	-	-	-	-	-	-	-
Deposits, including PEB balances	4.1	1.2	1.6	1.9	8.8	0.9	-	9.7
Certificates of deposit	1.3	1.6	1.7	0.5	5.1	-	-	5.1
Commercial paper	0.3	0.9	0.1	-	1.3	-	-	1.3
Covered bonds	0.1	-	-	1.2	1.3	0.8	11.7	13.8
Medium term notes	-	-	-	0.9	0.9	0.6	8.4	9.9
Securitisations	-	-	-	1.4	1.4	0.7	2.6	4.7
Other	-	-	-	-	-	-	1.3	1.3
Total	5.8	3.7	3.4	5.9	18.8	3.0	24.0	45.8
Of which secured	0.1	-	-	2.6	2.7	1.5	15.3	19.5
Of which unsecured	5.7	3.7	3.4	3.3	16.1	1.5	8.7	26.3
% of total	12.6	8.1	7.4	12.9	41.0	6.6	52.4	100.0

The Group's wholesale funding ratio (wholesale funding as a proportion of total funding liabilities) was 27.2% at 30 September 2016 (4 April 2016: 24.8%). The wholesale funding ratio includes all balance sheet sources of funding (including securitisations) and therefore excludes off-balance sheet FLS drawings.

The proportion of on-balance sheet funding categorised as long-term (more than one year to maturity) is 56% (4 April 2016: 59%) which reflects an increase in shorter term deposits and commercial paper, with covered bond and securitisation maturities falling into the next 12 months also increasing.

Liquidity risk

Total liquidity

The Group ensures it has sufficient resources to meet day-to-day cash flow needs and to meet internal and regulatory liquidity requirements, which are calibrated to ensure the Group has sufficient liquidity, both in terms of amount and quality, in a range of stress scenarios and across multiple time horizons.

The table below sets out the sterling equivalent fair value of the liquidity portfolio, categorised by issuing currency. It includes off-balance sheet liquidity (£8 billion of off-balance sheet FLS treasury bills included in government bonds at 30 September) and excludes encumbered assets.

Liquid assets	**30 September 2016**				4 April 2016			
	GBP £bn	**EUR £bn**	**USD £bn**	**Total £bn**	GBP £bn	EUR £bn	USD £bn	Total £bn
Cash and reserves at central banks	**15.5**	**1.9**	**-**	**17.4**	7.9	0.9	-	8.8
Government bonds	**12.7**	**0.1**	**0.5**	**13.3**	13.4	0.5	0.9	14.8
Supranational bonds	**0.3**	**-**	**0.2**	**0.5**	0.4	-	0.1	0.5
Covered bonds	**0.5**	**0.5**	**-**	**1.0**	0.5	0.6	-	1.1
RMBS	**0.6**	**0.4**	**-**	**1.0**	0.7	0.3	0.1	1.1
Asset backed securities	**0.2**	**0.1**	**-**	**0.3**	0.2	0.1	-	0.3
Other securities	**0.3**	**0.6**	**0.3**	**1.2**	0.4	0.6	0.3	1.3
Total	**30.1**	**3.6**	**1.0**	**34.7**	23.5	3.0	1.4	27.9

The average combined month end balance of cash and reserves at central banks, government and supranational bonds during the period was £30.2 billion (4 April 2016: £22.8 billion).

At 30 September 2016, cash, government bonds (including FLS treasury bills) and supranational bonds included in the liquidity pool represented 128% (4 April 2016: 128%) of wholesale funding maturing in less than one year, assuming no rollovers.

Financial risk – Liquidity and funding risk (continued)

The Group intends to participate in the Bank of England's Term Funding Scheme (TFS) which provides cash secured against eligible collateral and has a flexible four year maturity.

Residual maturity of liquidity 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). In practice, customer behaviours mean that liabilities are often retained for longer than their contractual maturities and assets are repaid faster.

The balance sheet structure and risks are managed and monitored by ALCO. For forecasting purposes, the Group uses judgement and past behavioural performance of each asset and liability class to anticipate likely cash flow requirements of the Group.

Residual maturity	**Due less than one month (note i)**	**Due between one and three months**	**Due between three and six months**	**Due between six and nine months**	**Due between nine and twelve months**	**Due between one and two years**	**Due between two and five years**	**Due after more than five years**	**Total**
30 September 2016	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Financial assets									
Cash	**17,213**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**17,213**
Loans and advances to banks	**2,979**	**-**	**-**	**-**	**-**	**-**	**-**	**344**	**3,323**
Available for sale investment securities	**2**	**14**	**190**	**36**	**107**	**158**	**2,582**	**6,773**	**9,862**
Loans and advances to customers	**2,936**	**1,260**	**1,905**	**1,878**	**1,858**	**7,199**	**21,173**	**146,917**	**185,126**
Derivative financial instruments	**85**	**106**	**38**	**111**	**114**	**236**	**1,855**	**3,635**	**6,180**
Other financial assets (note ii)	**4**	**30**	**58**	**49**	**54**	**183**	**396**	**483**	**1,257**
Total financial assets	**23,219**	**1,410**	**2,191**	**2,074**	**2,133**	**7,776**	**26,006**	**158,152**	**222,961**
Financial liabilities									
Shares	**106,747**	**2,891**	**5,114**	**5,394**	**6,217**	**9,130**	**6,584**	**1,338**	**143,415**
Deposits from banks	**3,504**	**78**	**25**	**52**	**-**	**27**	**-**	**-**	**3,686**
Of which repo	**536**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**536**
Other deposits	**3,044**	**1,567**	**1,798**	**630**	**692**	**179**	**16**	**-**	**7,926**
Due to customers	**3,325**	**1,049**	**1,002**	**244**	**216**	**112**	**37**	**-**	**5,985**
Secured funding – ABS and covered bonds	**2,396**	**15**	**440**	**324**	**1,068**	**1,347**	**7,522**	**8,485**	**21,597**
Senior unsecured funding	**1,574**	**4,474**	**1,258**	**1,236**	**216**	**1,061**	**6,542**	**5,692**	**22,053**
Derivative financial instruments	**39**	**13**	**25**	**37**	**66**	**287**	**689**	**2,816**	**3,972**
Other financial liabilities (note ii)	**-**	**-**	**-**	**3**	**1**	**8**	**19**	**-**	**31**
Subordinated liabilities	**-**	**-**	**-**	**-**	**-**	**108**	**722**	**2,076**	**2,906**
Subscribed capital (note iii)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**435**	**435**
Total financial liabilities	**120,629**	**10,087**	**9,662**	**7,920**	**8,476**	**12,259**	**22,131**	**20,842**	**212,006**
Off-balance sheet commitments (note iv)	**14,520**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**14,520**
Net liquidity difference	**(111,930)**	**(8,677)**	**(7,471)**	**(5,846)**	**(6,343)**	**(4,483)**	**3,875**	**137,310**	**(3,565)**
Cumulative liquidity difference	**(111,930)**	**(120,607)**	**(128,078)**	**(133,924)**	**(140,267)**	**(144,750)**	**(140,875)**	**(3,565)**	

Financial risk – Liquidity and funding risk (continued)

Residual maturity 4 April 2016	Due less than one month (note i) £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	8,797	-	-	-	-	-	-	-	8,797
Loans and advances to banks	3,179	87	-	-	-	-	-	325	3,591
Available for sale investment securities	6	15	14	1	178	352	3,680	6,366	10,612
Loans and advances to customers	2,825	1,256	1,929	1,810	1,823	7,124	20,237	141,803	178,807
Derivative financial instruments	25	151	128	102	30	227	994	2,241	3,898
Other financial assets (note ii)	5	15	107	17	65	142	234	299	884
Total financial assets	14,837	1,524	2,178	1,930	2,096	7,845	25,145	151,034	206,589
Financial liabilities									
Shares	103,296	1,632	5,875	4,608	5,122	10,731	6,251	1,200	138,715
Deposits from banks	1,658	184	168	41	19	-	25	-	2,095
Of which repo	*122*	-	*5*	-	-	-	-	-	*127*
Other deposits	2,549	1,392	1,843	716	391	737	7	-	7,635
Due to customers	3,563	543	1,347	345	215	126	62	-	6,201
Secured funding – ABS and covered bonds	65	19	43	2,238	323	1,524	7,002	8,263	19,477
Senior unsecured funding	1,637	2,478	1,810	315	1,040	632	3,878	4,818	16,608
Derivative financial instruments	31	9	23	33	84	338	647	2,298	3,463
Other financial liabilities (note ii)	2	2	1	1	(1)	-	8	-	13
Subordinated liabilities	-	-	-	-	-	114	669	1,034	1,817
Subscribed capital (note iii)	-	-	-	-	-	-	-	413	413
Total financial liabilities	112,801	6,259	11,110	8,297	7,193	14,202	18,549	18,026	196,437
Off-balance sheet commitments (note iv)	13,630	-	-	-	-	-	-	-	13,630
Net liquidity difference	(111,594)	(4,735)	(8,932)	(6,367)	(5,097)	(6,357)	6,596	133,008	(3,478)
Cumulative liquidity difference	(111,594)	(116,329)	(125,261)	(131,628)	(136,725)	(143,082)	(136,486)	(3,478)	

Notes:
i. Due less than one month includes amounts repayable on demand.
ii. Other financial assets and liabilities include the fair value adjustments for portfolio hedged risk and investments in equity shares.
iii. The principal amount for undated subscribed capital is included within the due more than five years column. On 17 October 2016, the Group issued notice to call £140 million of subscribed capital in December 2016.
iv. Off-balance sheet commitments include amounts payable on demand for unrecognised loan commitments and customer overpayments on residential mortgages, where the borrower is able to draw down the amount overpaid.

Asset encumbrance

Asset encumbrance arises from collateral pledged against secured funding and other collateralised obligations. The majority of asset encumbrance within the Group arises from the use of prime mortgage pools to collateralise the Covered Bond and Silverstone asset-backed funding programmes and from participation in the 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 classified as encumbered.

At 30 September 2016 the Group had £36,013 million (4 April 2016: £34,728 million) of externally encumbered assets with counterparties other than central banks. The Group also had £26,915 million (4 April 2016: £29,194 million) of pre-positioned and encumbered assets held at central banks and £151,255 million (4 April 2016: £136,349 million) of assets neither encumbered nor pre-positioned but capable of being encumbered.

Further details of the Group's policies for asset encumbrance are contained within the Annual Report and Accounts 2016.

Financial risk – Liquidity and funding risk (continued)

External credit ratings

During the period all of the major rating agencies reviewed the Society's credit ratings. The Society's short and long-term credit ratings at 18 November 2016 are as follows:

Credit ratings	Long-term	Short-term	Tier 2	Date of last rating action / confirmation	Outlook
Standard & Poor's	A	A-1	BBB	June 2016	Negative
Moody's	Aa3	P-1	Baa1	June 2016	Negative
Fitch	A	F1	A-	May 2016	Positive

In May 2016, Fitch revised Nationwide's outlook to positive from stable reflecting the potential for increased subordinated debt issuance leading to lower than expected losses for the Society's deposits and senior unsecured debt.

In June 2016, Moody's upgraded Nationwide's deposit and senior unsecured ratings to Aa3 from A1. This reflected the benefit of the recent issuance of senior unsecured debt leading to improved loss absorbency.

Since the result of the EU referendum was announced, all three rating agencies have taken action on their UK sovereign rating. On 28 June 2016, Moody's placed Nationwide's long term rating on negative outlook. This was part of a sector-wide action involving all UK banks and building societies and Nationwide was not singled out. On 7 July 2016, Standard & Poor's placed Nationwide, along with various other UK financial institutions, on negative outlook as they now see a negative trend for UK banking economic risk.

Solvency risk

Solvency risk is the risk that the Group 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 by the Group can be found in the Annual Report and Accounts 2016.

Capital position

The capital disclosures included in this report are on a Capital Requirements Directive IV (CRD IV) end point basis unless otherwise stated. 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 Group (consolidated) basis, including all subsidiary entities.

The Group's capital and leverage ratios have remained well in excess of regulatory requirements with a Common Equity Tier 1 (CET1) ratio of 23.3% (4 April 2016: 23.2%) and a leverage ratio of 4.0% (4 April 2016: 4.2%). The CET1 ratio has remained broadly stable due to a good financial performance, with £502 million of profit after tax for the period being offset by an increase in the pension deficit which reduced the general reserve by £405 million. The table below reconciles the general reserves to total regulatory capital.

Financial risk – Solvency risk (continued)

Total regulatory capital	30 September 2016 £m	4 April 2016 £m
General reserve (note i)	**8,965**	8,921
Core capital deferred shares (CCDS)	**531**	531
Revaluation reserve	**67**	64
Available for sale reserve	**(20)**	(8)
Regulatory adjustments and deductions:		
Foreseeable distributions (note ii)	**(42)**	(42)
Prudent valuation adjustment (note iii)	**(47)**	(55)
Own credit and debit valuation adjustments (note iv)	**(1)**	(2)
Intangible assets (note v)	**(1,165)**	(1,120)
Goodwill (note v)	**(12)**	(12)
Excess of regulatory expected losses over impairment provisions (note vi)	**(209)**	(264)
Total regulatory adjustments and deductions	**(1,476)**	(1,495)
Common Equity Tier 1 capital	**8,067**	8,013
Additional Tier 1 capital securities (AT1)	**992**	992
Total Tier 1 capital	**9,059**	9,005
Dated subordinated debt (note vii)	**2,628**	1,628
Collectively assessed impairment allowances	**19**	21
Tier 2 capital	**2,647**	1,649
Total regulatory capital	**11,706**	10,654
Solvency ratios	**%**	%
Common Equity Tier 1 ratio	**23.3**	23.2
Total Tier 1 capital ratio	**26.2**	26.1
Total regulatory capital ratio	**33.8**	30.9

Notes:
i. The general reserve includes independently verified profits for the period to 30 September 2016.
ii. Foreseeable distributions in respect of CCDS and AT1 securities are deducted from CET1 capital under CRD IV.
iii. A prudent valuation adjustment (PVA) is applied in respect of fair valued instruments as required under regulatory capital rules.
iv. 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 the Group's own credit standing and risk, in accordance with CRD IV rules.
v. Intangible assets and goodwill do not qualify as capital for regulatory purposes.
vi. The net regulatory capital expected loss in excess of accounting impairment provisions is deducted from CET1 capital, gross of tax.
vii. 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.

The Group's CET1 ratio on a transitional basis is in line with end point at 23.3% (4 April 2016: 23.2%). The total Tier 1 capital ratio and total regulatory capital ratio are 27.4% (4 April 2016: 27.3%) and 35.1% (4 April 2016: 32.2%) respectively on a transitional basis, as PIBS and some additional subordinated debt instruments qualify under grandfathering provisions under CRD IV.

Tier 2 capital has increased following the issuance of $1.25 billion of qualifying Tier 2 subordinated debt with a coupon of 4% and a maturity of 10 years. Detailed information on the key features of the Group's other capital instruments can be found within the Group's annual Pillar 3 Disclosure 2016 at **nationwide.co.uk**

A breakdown of the movements in regulatory capital can be found in the Appendix.

RWAs have increased by £161 million since 4 April 2016, to £34,636 million. Counterparty credit risk and credit value adjustment RWAs have increased due to higher derivative market values. Residential mortgage RWAs have decreased as a result of improved book quality from rising house prices, which outweighed the increase in mortgage balances.

Financial risk – Solvency risk (continued)

A breakdown in the Group's RWAs is set out in the table below. Additional details, including minimum Pillar 1 capital requirements and a RWA flow table, are contained in the Appendix. Details on how RWAs are calculated can be found in the Group's annual Pillar 3 Disclosure 2016 at **nationwide.co.uk**

Breakdown of RWAs	**RWAs at 30 September 2016 £m**	RWAs at 4 April 2016 £m
Credit risk:		
Residential mortgages	**13,853**	14,086
Unsecured lending	**5,809**	5,621
Commercial	**6,096**	6,194
Treasury	**867**	1,039
Counterparty credit risk (note i)	**773**	598
Credit valuation adjustment (note i)	**883**	698
Other (note ii)	**1,751**	1,635
Total credit risk	**30,032**	29,871
Operational risk	**4,604**	4,604
Market risk (note iii)	**-**	-
Total	**34,636**	34,475

Notes:
i. Counterparty credit risk and credit valuation adjustment credit risk relate to derivative financial instruments and repurchase agreements.
ii. Other relates to fixed and other assets and equities held on the balance sheet.
iii. The Group has elected to set this to zero, as permitted by the CRR, as exposure is below the threshold of 2% of own funds.

Nationwide's latest Pillar 2A Individual Capital Guidance (ICG) was received in August 2016 following an Individual Capital Adequacy Assessment Process (ICAAP). The ICG is a point in time estimate by the PRA (which may change over time) of the amount of capital required to be held to meet risks partly covered by Pillar 1, such as credit concentration and operational risk, and those risks not covered by Pillar 1, such as pensions and interest rate risk. It equates to circa £2.2 billion, of which at least circa £1.3 billion must be met by CET1 capital (previously circa £2.2 billion, of which at least circa £1.2 billion must be met by CET1 capital). This amount is equivalent to 6.5% of RWAs as at 30 September 2016, reflecting the Group's low average risk weight, given that approximately 75% of the Group's total assets are in the form of secured residential mortgages.

Leverage

CRD IV requires firms to calculate a non-risk based leverage ratio, to supplement risk-based capital requirements. Our 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 and is reported on an end point basis. We manage the risk of excessive leverage through regular monitoring and reporting of the leverage ratio, which forms part of the Group's risk appetite framework. Further information can be found within the Group's annual Pillar 3 Disclosure 2016 at **nationwide.co.uk**

The leverage ratio decreased to 4.0% (4 April 2016: 4.2%) due to a higher pension deficit as profits have broadly offset the increase in leverage exposure of £14,705 million. Balance sheet growth was driven by increased mortgage balances and liquid assets, in particular central bank reserves.

The table below provides further detail on the components of the exposures measure:

Leverage ratio	**30 September 2016 £m**	4 April 2016 £m
Tier 1 capital	**9,059**	9,005
Total exposures	**227,886**	213,181
Leverage ratio	**4.0%**	4.2%

A more detailed breakdown of the leverage exposure is contained in the Appendix.

Financial risk – Solvency risk (continued)

In August, the PRA announced a modification to the calculation of leverage exposure for the purposes of the UK leverage ratio framework by excluding central bank reserves. Under the modified basis of measurement the Group's leverage ratio at 30 September 2016 is 4.3% (4 April 2016: 4.4%). The permission to modify the basis of measurement for the purposes of the UK regulatory regime does not affect the requirement to calculate and report leverage in accordance with the CRR as disclosed in the table above.

Regulatory developments

The Group continues to monitor regulatory developments that could lead to an increase in capital requirements and will remain engaged in the development of the regulatory approach to ensure it is prepared for any change.

We expect to have a steady state leverage ratio requirement of 3.75% based on the UK leverage ratio framework, which comprises a minimum requirement of 3%, a supplementary leverage ratio buffer of 0.35% and Countercyclical Leverage Ratio Buffer (CCyLB) of 0.4%. The Financial Policy Committee (FPC) could set a CCyLB of up to 0.9% (i.e. a total leverage requirement of 4.25%) if it deems risks to be elevated; however, following recent guidance on the CCyLB, Nationwide's minimum leverage requirements are expected to remain at 3% until at least June 2017.

Whilst we continue to calculate and disclose our leverage ratio based on the CRR methodology, we will also monitor our leverage requirements using the PRA's modified leverage exposure, as announced in August 2016. The Basel Committee on Banking Supervision (BCBS) and the European Banking Authority (EBA) are currently reviewing the leverage ratio requirement for banks and building societies, but it is expected that the UK leverage ratio framework will remain the Group's binding requirement. We expect our leverage ratio to remain above 4% in the medium term reflecting our desire to maintain capital levels above binding regulatory requirements given that this will also support our future Minimum Requirement for own funds and Eligible Liabilities (MREL) requirements, which are explained below.

As part of the European Bank Recovery and Resolution Directive (BRRD), the Bank of England (BoE), in its capacity as the UK resolution authority, has published a policy confirming the UK MREL framework. Whilst we await our formal individual requirement from the BoE, we expect to have a MREL requirement equal to double minimum capital requirements plus capital buffers from 2020. The Group is confident it has a strong foundation from which to meet the requirement, and has recently issued Tier 2 capital which will support this.

The BCBS is expected to finalise its revisions to the standardised approach for credit and operational risks in late 2016. We do not believe that these will lead to a material increase in capital requirements for the Group. Whilst the revised standardised approach is due to be used as a basis for a floor for minimum capital requirements, the calibration of this has not yet been published. In addition, a BCBS consultation proposing constraints on the use of IRB approaches for credit risk was published in March 2016 and a PRA consultation on residential risk weights, proposing revised expectations for IRB models, was published in July 2016. These proposals could lead to higher risk weights for certain portfolios in the medium term.

During the summer of 2016, the major UK banks and building societies, including Nationwide, took part in the third of the PRA's annual concurrent stress tests, which assessed the resilience to a severe slowdown in the UK and global economies. The results of the 2016 concurrent stress test are expected on 30 November 2016.

Financial risk (continued)

Pension risk

The Group has funding obligations to defined benefit pension schemes, the most significant being the Nationwide Pension Fund (the Fund). Further information, including key risk factors, is set out in the Annual Report and Accounts 2016.

There has been a significant increase in the Group's retirement benefit deficit, from £213 million to £723 million, since 4 April 2016. This has been driven by changes in the economic environment associated with the EU referendum, which have impacted key risk factors such as long-term interest rates and inflation, and caused the value of the Fund's liabilities to increase significantly. Assets performed strongly over the period, driven by increases in bond and equity valuations; however this was more than offset by the increase in the value of the liabilities.

The latest triennial valuation of the Fund, which has an effective date of 31 March 2016, is currently underway. Employer contributions in future years, including a new deficit recovery plan, are expected to be agreed by the Group and the Trustee by mid-2017.

The Group continues to actively engage with the Trustee to ensure broad alignment on investment objectives and implementation. This is supported by a joint investment working group which considers specific risk management initiatives. This includes, but is not limited to, investment strategy de-risking and diversification.

Over the period, approximately £350 million of equities were sold and reinvested into credit and liability matching assets to reduce risk and increase investment diversification. Furthermore, the Fund transacted approximately £250 million of long-dated inflation swaps to further reduce its exposure to inflation risk. These activities have partially offset the impact of the adverse economic environment on the Fund's deficit.

Further information on the pension deficit as at 30 September 2016 is included in note 20 of the consolidated interim financial statements.

Earnings risk

Earnings risk is defined as the risk that the Group's sources of income are unable to continue to add the expected value, due to changes in market, regulatory or other environmental factors. Further information on the Group's strategy for managing and how it seeks to mitigate earnings risk is available in the Business and Risk Report in the Annual Report and Accounts 2016.

Following the EU referendum and the subsequent reduction in the base rate to 0.25% there is an increased risk that interest rates will remain lower for longer. This is expected to have an adverse impact on earnings for the UK Retail Banking sector. Furthermore, the economic uncertainty since the referendum may reduce the expected growth in the mortgage market and increase the risk of credit losses in the medium term.

The Group will continue to monitor the external economic environment to identify and mitigate any threats to achieving its forecasted earnings.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Group's operational risk profile continues to be informed by risk assessments from the business and by review and challenge from internal teams and committees.

The Annual Report and Accounts 2016 details our risk profile, environment and outlook; developments during the period are outlined below.

Consistent with the position at the financial year end, the majority of the Group's operational risk events continue to be recorded against two of the Basel II categories: '*External Fraud*' and '*Clients, Products and Business Practices*' and are categorised as having minor impact. During the period, the Group had one significant operational incident which resulted in restricted access to the previous version of the Mobile Banking application over three days. Following a full investigation, remediation activities have been carried out to prevent a reoccurrence.

Over the last six months, the external operational risk environment has continued to see a number of high profile cyber-attacks and failures of technology infrastructures. The increased use of digital banking services means that the financial services sector is seeing increased expectations of an 'always on' 24/7 service and lower tolerance of system unavailability combined with heightened concerns over the security of banking systems. The Group is committed to protecting both itself and its members from the threat of fraudulent attacks by increasingly sophisticated cyber criminals and continues to invest in security and detection capabilities, designed to ensure it can respond to such threats effectively. As part of this ongoing commitment, the Group has also recently announced the appointment of a number of external experts to its IT Strategy and Resilience Committee.

During the period, the Group successfully implemented the first change of the base rate since 2009. The Group continues to keep plans for the operational impact of any future changes to the interest rate under regular review, to ensure that we have the capacity to respond to customer needs.

Conduct and compliance risk

Conduct and compliance risk is defined as the risk that the Group exercises inappropriate judgement or makes 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 customers. The associated risk management framework has not substantially changed from the position reported in the Annual Report and Accounts 2016. However, further activity is underway to ensure that the management and measurement of conduct risk is effectively embedded across the Group.

In line with the outlook provided in the Annual Report and Accounts 2016, the Group will continue to develop its service propositions to meet the changing demands and behaviours of customers.

During the period, the outcome of the EU referendum has given rise to a number of potential uncertainties but, as a UK-focused building society, the direct impact of the vote to leave the EU on the Group is likely to be limited. The potential impact of the vote in relation to the Group's business is, though, being considered on an ongoing basis, including potential changes to law and regulation that may occur when the UK leaves the EU.

Consolidated interim financial statements

Contents

Consolidated income statement
(Unaudited)

	Notes	**Half year to 30 September 2016 £m**	Half year to 30 September 2015 £m
Interest receivable and similar income	3	**2,576**	2,613
Interest expense and similar charges	4	**(1,127)**	(1,056)
Net interest income		**1,449**	1,557
Fee and commission income		**204**	212
Fee and commission expense		**(108)**	(91)
Income from investments		**-**	2
Other operating income	5	**97**	3
Gains from derivatives and hedge accounting	6	**77**	14
Total income		**1,719**	1,697
Administrative expenses	7	**(938)**	(866)
Impairment losses on loans and advances	8	**(32)**	-
Impairment losses on investment securities		**(5)**	-
Provisions for liabilities and charges	18	**(48)**	(29)
Profit before tax		**696**	802
Taxation	9	**(194)**	(166)
Profit after tax		**502**	636

The notes on pages 59 to 83 form an integral part of these consolidated interim financial statements.

Consolidated statement of comprehensive income
(Unaudited)

	Notes	**Half year to 30 September 2016 £m**	Half year to 30 September 2015 £m
Profit after tax		**502**	636
Other comprehensive (expense)/income:			
Items that will not be reclassified to the income statement			
Remeasurements of retirement benefit obligations:			
Retirement benefit remeasurements before tax		**(552)**	46
Taxation		**147**	(9)
	20	**(405)**	37
Revaluation of property:			
Adjustments to taxation in respect of prior periods		**3**	-
		(402)	37
Items that may subsequently be reclassified to the income statement			
Cash flow hedge reserve:			
Fair value movements taken to members' interests and equity		**2,669**	(54)
Amount transferred to income statement		**(2,264)**	(67)
Taxation		**(95)**	24
	6	**310**	(97)
Available for sale reserve:			
Fair value movements taken to members' interests and equity		**95**	(54)
Amount transferred to income statement		**(112)**	6
Taxation		**5**	14
		(12)	(34)
Other comprehensive expense		**(104)**	(94)
Total comprehensive income		**398**	542

The notes on pages 59 to 83 form an integral part of these consolidated interim financial statements.

Consolidated balance sheet
(Unaudited)

	Notes	30 September 2016 £m	4 April 2016 £m
Assets			
Cash		**17,213**	8,797
Loans and advances to banks		**3,323**	3,591
Available for sale investment securities		**9,862**	10,612
Derivative financial instruments		**6,180**	3,898
Fair value adjustment for portfolio hedged risk		**1,197**	756
Loans and advances to customers	11	**185,126**	178,807
Investments in equity shares		**57**	126
Intangible assets		**1,221**	1,191
Property, plant and equipment		**846**	823
Investment properties		**8**	8
Accrued income and expenses prepaid		**272**	166
Deferred tax		**168**	35
Other assets		**73**	129
Total assets		**225,546**	208,939
Liabilities			
Shares		**143,415**	138,715
Deposits from banks		**3,686**	2,095
Other deposits		**7,926**	7,635
Due to customers	12	**5,985**	6,201
Fair value adjustment for portfolio hedged risk		**31**	13
Debt securities in issue		**43,650**	36,085
Derivative financial instruments		**3,972**	3,463
Other liabilities		**508**	414
Provisions for liabilities and charges	18	**298**	343
Accruals and deferred income		**297**	288
Subordinated liabilities	13	**2,906**	1,817
Subscribed capital	13	**435**	413
Deferred tax		**236**	186
Current tax liabilities		**203**	128
Retirement benefit obligations	20	**723**	213
Total liabilities		**214,271**	198,009
Members' interests and equity			
Core capital deferred shares	21	**531**	531
Other equity instruments	22	**992**	992
General reserve		**8,965**	8,921
Revaluation reserve		**67**	64
Cash flow hedge reserve		**740**	430
Available for sale reserve		**(20)**	(8)
Total members' interests and equity		**11,275**	10,930
Total members' interests, equity and liabilities		**225,546**	208,939

The notes on pages 59 to 83 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 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*	**-**	**-**	**(25)**	**-**	**-**	**-**	**(25)**
At 30 September 2016	**531**	**992**	**8,965**	**67**	**740**	**(20)**	**11,275**

For the period ended 30 September 2015
(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 2015	531	992	7,995	68	129	26	9,741
Profit for the period	-	-	636	-	-	-	636
Net remeasurements of retirement benefit obligations	-	-	37	-	-	-	37
Net movement in cash flow hedge reserve	-	-	-	-	(97)	-	(97)
Net movement in available for sale reserve	-	-	-	-	-	(34)	(34)
Total comprehensive income	-	-	673	-	(97)	(34)	542
Distribution to the holders of core capital deferred shares	-	-	(28)	-	-	-	(28)
Distribution to the holders of Additional Tier 1 capital*	-	-	(28)	-	-	-	(28)
At 30 September 2015	531	992	8,612	68	32	(8)	10,227

*The distribution to the holders of Additional Tier 1 capital is shown net of an associated tax credit of £9 million (H1 2015/16: £6 million).

The notes on pages 59 to 83 form an integral part of these consolidated interim financial statements.

Consolidated cash flow statement
(Unaudited)

	Notes	**Half year to 30 September 2016 £m**	Half year to 30 September 2015 £m
Cash flows generated from/(used in) operating activities			
Profit before tax		**696**	802
Adjustments for:			
Non-cash items included in profit before tax	24	**95**	(86)
Changes in operating assets and liabilities	24	**610**	(733)
Interest paid on subordinated liabilities		**(40)**	(48)
Interest paid on subscribed capital		**(11)**	(11)
Taxation		**(133)**	(115)
Net cash flows generated from/(used in) operating activities		**1,217**	(191)
Cash flows generated from/(used in) investing activities			
Purchase of investment securities		**(2,336)**	(2,443)
Sale and maturity of investment securities		**3,713**	1,893
Purchase of property, plant and equipment		**(96)**	(80)
Sale of property, plant and equipment		**4**	7
Purchase of intangible assets		**(139)**	(143)
Dividends received from non-Group entities		**-**	2
Net cash flows generated from/(used in) investing activities		**1,146**	(764)
Cash flows generated from financing activities			
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		**15,704**	15,974
Redemption of debt securities in issue		**(10,825)**	(10,751)
Issue of subordinated liabilities		**949**	-
Redemption of subordinated liabilities		**-**	(256)
Net cash flows generated from financing activities		**5,766**	4,905
Net increase in cash and cash equivalents		**8,129**	3,950
Cash and cash equivalents at start of period		**12,063**	7,250
Cash and cash equivalents at end of period	24	**20,192**	11,200

The notes on pages 59 to 83 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 2016.

These condensed consolidated interim financial statements ('consolidated interim financial statements') have been prepared as at 30 September 2016 and show the financial performance for the period from, and including, 5 April 2016 to this date. They were approved for issue on 17 November 2016.

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 2016 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' as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU). The consolidated interim financial statements should be read in conjunction with the Group's annual financial statements for the year ended 4 April 2016, 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 2016, where a full glossary of terms can be found.

Copies of the Annual Report and Accounts 2016 are available on the Group's website at:
nationwide.co.uk/about_nationwide/results_and_accounts

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 2017 are consistent with those disclosed in the Annual Report and Accounts 2016, except for a minor change to the derivatives and hedge accounting policy in respect of the disclosure of cash collateral.

The policy includes additional wording to clarify the treatment of situations where collateral is received from or given to counterparties other than banks and now states:

Where cash collateral is received, to mitigate the risk inherent in amounts due to the Group, it is included as a liability within either deposits from banks or other deposits, depending on the counterparty. Similarly, where cash collateral is given, to mitigate the risk inherent in amounts due from the Group, it is included as an asset in either loans and advances to banks or loans and advances to customers.

There is no impact on prior period comparatives as a result of this change.

Notes to the consolidated interim financial statements (continued)

2 Basis of preparation (continued)

Standards and amendments applied during the half year to 30 September 2016

There were no new standards applied during the half year to 30 September 2016. Minor amendments to IAS 16 'Property, Plant and Equipment', IAS 38 'Intangible Assets' and IAS 1 'Presentation of Financial Statements', together with the annual improvements to the IFRSs 2012-2014 cycle, were effective for the first half of the financial year. These amendments and improvements 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 2016. Of these pronouncements the most significant is IFRS 9 'Financial Instruments' as detailed further below.

IFRS 9 'Financial Instruments'

IFRS 9 will be implemented in the financial statements for the year ending 4 April 2019 and will replace IAS 39 'Financial Instruments: Recognition and Measurement'.

The principal requirements of IFRS 9 are as follows:

Classification and measurement

The classification of financial assets will be based on the objectives of the Group's business model and the contractual cash flow characteristics of the instruments. Financial assets will then be classified as held at amortised cost, at fair value through other comprehensive income (FVOCI), or at fair value through profit or loss (FVTPL). The changes in classification from the accounting treatment under IAS 39 are not expected to be significant for the Group.

Impairment of financial assets

IFRS 9 changes the basis of recognition of impairment on financial assets from an incurred loss to an expected credit loss (ECL) approach for amortised cost and FVOCI financial assets. ECLs are based on an assessment of the probability of default, loss given default and exposure at default, discounted to give a net present value. The estimation of ECLs should be unbiased and probability-weighted, taking into account all reasonable and supportable information, including forward looking economic assumptions and a range of possible outcomes.

A key feature of IFRS 9 compared with existing approaches under IAS 39 is that where a loan has experienced a significant increase in credit risk since initial recognition, even though this may not lead to a conclusion that the loan is impaired, provisions will be made based on the likelihood of default over the full life of the loan.

Notes to the consolidated interim financial statements (continued)

2 Basis of preparation (continued)

Implementation strategy

The Group's implementation strategy for IFRS 9 is based on an integrated solution using common systems, tools and data to assess credit risk and account for ECLs. This is consistent with guidance issued by the Basel Committee on Banking Supervision which sets an expectation of a high quality implementation, and will entail changes to the governance, controls, models and business processes relating to credit loss provisioning. An extensive period of dual running of internal management information and processes is planned in advance of the implementation date. The design phase of the programme has been completed and build and test activities are progressing in line with implementation plans.

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 2016 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.

3 Interest receivable and similar income

	Half year to 30 September 2016 £m	Half year to 30 September 2015 £m
On residential mortgages	**2,454**	2,462
On other loans	**381**	412
On investment securities	**262**	173
On other liquid assets	**27**	10
Net expense on financial instruments hedging assets	**(548)**	(444)
Total	**2,576**	2,613

Included within interest receivable and similar income is interest income on impaired financial assets of £17 million (H1 2015/16: £21 million).

Notes to the consolidated interim financial statements (continued)

4 Interest expense and similar charges

	Half year to 30 September 2016 £m	Half year to 30 September 2015 £m
On shares held by individuals	**755**	762
On subscribed capital	**24**	13
On deposits and other borrowings:		
Subordinated liabilities	**54**	51
Other	**315**	240
On debt securities in issue	**385**	335
Net income on financial instruments hedging liabilities	**(409)**	(349)
Interest on net defined benefit pension liability (note 20)	**3**	4
Total	**1,127**	1,056

Interest on deposits and other borrowings includes an expense of £247 million (H1 2015/16: £177 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 £235 million (H1 2015/16: £136 million) in relation to the associated derivatives. Further details are included in note 15.

Interest on debt securities in issue has increased as a result of higher debt securities balances, reflecting the pre-funding of wholesale maturities during the period.

5 Other operating income

	Half year to 30 September 2016 £m	Half year to 30 September 2015 £m
Gain on disposal of investment in Visa Europe Limited	**100**	-
Other (expense)/income	**(3)**	3
Total	**97**	3

On 21 June 2016, the Group disposed of its share in Visa Europe Limited, resulting in a gain on disposal of £100 million.

Other (expense)/income 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

	Half year to 30 September 2016 £m	Half year to 30 September 2015 £m
Gains from fair value hedge accounting (note i)	**58**	40
Ineffectiveness from cash flow hedge accounting (note ii)	**5**	4
Net gain/(loss) from mortgage pipeline (note iii)	**8**	(29)
Fair value losses from other derivatives (note iv)	**(17)**	(26)
Foreign exchange differences	**23**	25
Total	**77**	14

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 (sometimes 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 is recognised in the income statement. The ineffective portion of the fair value movement is recognised immediately in the income statement.

iii. The Group elects to fair value certain mortgage commitments in order to reduce the accounting mismatch caused when derivatives are used to hedge these commitments.

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 achievable.

Although the Group only uses derivatives for the hedging of 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 does not reflect the economic reality of the Group's hedging strategy.

Included within the gain of £77 million (H1 2015/16: £14 million) was the impact of the following:

- Gains of £58 million (H1 2015/16: £40 million) from fair value hedge accounting ineffectiveness and the amortisation of existing balance sheet amounts.
- A net gain of £8 million (H1 2015/16: £29 million loss) from the accounting impact of hedging the pipeline of new mortgage business. Losses of £26 million (H1 2015/16: £40 million) from changes in the fair value of forward starting derivatives economically hedging the mortgage pipeline have been offset by gains of £34 million (H1 2015/16: £11 million) from the movement in the fair value of mortgage commitments.
- Losses of £17 million (H1 2015/16: £26 million) from valuation adjustments and volatility on other derivatives which are not currently in an IAS 39 hedge accounting relationship.
- Gains of £23 million (H1 2015/16: £25 million) from the retranslation of foreign currency monetary items not subject to effective hedge accounting, against a backdrop of significant sterling depreciation.

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 deferral after taxation of £310 million (H1 2015/16: net transfer after taxation of £97 million) is driven by significant changes in derivative valuations caused by movements in foreign exchange rates.

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.

Notes to the consolidated interim financial statements (continued)

7 Administrative expenses

	Half year to 30 September 2016 £m	Half year to 30 September 2015 £m
Employee costs:		
Wages, salaries and bonuses	**289**	269
Social security costs	**31**	26
Pension costs	**68**	54
	388	349
Other administrative expenses	**375**	362
	763	711
Depreciation and amortisation	**175**	155
Total	**938**	866

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 2016 £m	Half year to 30 September 2015 £m
Impairment losses/(reversals) for the period		
Prime residential	**1**	(1)
Specialist residential	**4**	(6)
Consumer banking	**32**	33
Commercial lending	**(5)**	(27)
Other lending	**-**	1
Total	**32**	-

	30 September 2016 £m	4 April 2016 £m
Impairment provision at the end of the period		
Prime residential	**25**	25
Specialist residential	**71**	77
Consumer banking	**262**	281
Commercial lending	**44**	59
Other lending	**1**	1
Total	**403**	443

The Group impairment provision of £403 million at 30 September 2016 (4 April 2016: £443 million) comprises individual provisions of £60 million (4 April 2016: £75 million) and collective provisions of £343 million (4 April 2016: £368 million).

The decrease in the balance sheet provision on Prime and Specialist residential loans to £96 million (4 April 2016: £102 million) is driven largely by a reduction in the level of non-performing loans, combined with modest house price growth during the period.

The consumer banking impairment charge has remained broadly stable at £32 million (H1 2015/16: £33 million). The overall performance and risk profile of the portfolio has improved, driven by previous improvements to credit policies.

Notes to the consolidated interim financial statements (continued)

8 Impairment losses on loans and advances to customers (continued)

The commercial balance sheet provision has continued to fall to £44 million (4 April 2016: £59 million) reflecting improved conditions in the commercial real estate market. The higher reversal in the previous year reflected greater impaired balances impacted by improving market conditions.

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 2016 £m**	Half year to 30 September 2015 £m
Current tax:		
UK corporation tax	**223**	170
Total current tax	**223**	170
Deferred tax:		
Current period credit	**(30)**	(4)
Adjustments in respect of prior periods	**1**	-
Total deferred tax	**(29)**	(4)
Tax charge	**194**	166

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 2016 £m**	Half year to 30 September 2015 £m
Profit before tax	**696**	802
Tax calculated at a tax rate of 20%	**139**	160
Banking surcharge	**40**	-
Expenses not deductible for tax purposes	**14**	6
Adjustments in respect of prior periods	**1**	-
Tax charge	**194**	166

The Finance (No. 2) Act 2015 introduced legislation to impose a surcharge of 8% on the profits of banking companies after 1 January 2016. As a result, a banking surcharge of £40 million (H1 2015/16: £nil) is included in the UK corporation tax charge shown above.

Notes to the consolidated interim financial statements (continued)

10 Operating segments

For management reporting purposes, the Group is organised into the following operating segments, determined according to similar economic characteristics and customer base:

- Retail
- Commercial
- Head office functions

Details of the operating segments and the funds transfer pricing methodology are contained in note 11 of the Annual Report and Accounts 2016.

Half year to 30 September 2016	**Retail**	**Commercial**	**Head office functions**	**Total**
	£m	**£m**	**£m**	**£m**
Net income/(expense) from external customers	**1,805**	**202**	**(558)**	**1,449**
(Charge)/revenue from other segments	**(381)**	**(153)**	**534**	**-**
Net interest income	**1,424**	**49**	**(24)**	**1,449**
Net other income (note i)	**203**	**5**	**(15)**	**193**
Total revenue	**1,627**	**54**	**(39)**	**1,642**
Administrative expenses	**(883)**	**(20)**	**(35)**	**(938)**
Impairment and other provisions (note ii)	**(79)**	**(5)**	**(5)**	**(89)**
Underlying profit/(loss) before tax	**665**	**29**	**(79)**	**615**
FSCS levies	**4**	**-**	**-**	**4**
Gains from derivatives and hedge accounting	**-**	**-**	**77**	**77**
Profit/(loss) before tax	**669**	**29**	**(2)**	**696**
Taxation				**(194)**
Profit after tax				**502**
Total assets (note iii)	**171,919**	**13,090**	**40,537**	**225,546**
Total liabilities	**149,183**	**3,032**	**62,056**	**214,271**

Half year to 30 September 2015	Retail	Commercial	Head office functions	Total
	£m	£m	£m	£m
Net income/(expense) from external customers	1,814	229	(486)	1,557
(Charge)/revenue from other segments	(296)	(174)	470	-
Net interest income	1,518	55	(16)	1,557
Net other income (note i)	126	7	(7)	126
Total revenue	1,644	62	(23)	1,683
Administrative expenses (note iv)	(807)	(19)	(32)	(858)
Impairment and other provisions (note ii)	(50)	28	(2)	(24)
Underlying profit/(loss) before tax	787	71	(57)	801
FSCS levies	(5)	-	-	(5)
Transformation costs	(2)	-	(6)	(8)
Gains from derivatives and hedge accounting	-	-	14	14
Profit/(loss) before tax	780	71	(49)	802
Taxation				(166)
Profit after tax				636
Total assets (note iii)	160,540	13,503	29,068	203,111
Total liabilities	140,886	2,373	49,625	192,884

Notes:

i. Other income excludes gains from derivatives and hedge accounting which are shown separately. The gain on disposal of the Group's investment in Visa Europe Limited in the half year to 30 September 2016 is included in the Retail segment.

ii. Impairment and other provisions includes impairment losses on loans and advances, provisions for liabilities and charges (excluding FSCS) and impairment losses on investment securities.

iii. Retail assets include goodwill arising on the acquisition of The Mortgage Works (UK) plc.

iv. Administrative expenses exclude transformation costs which are shown separately.

Notes to the consolidated interim financial statements (continued)

11 Loans and advances to customers

	30 September 2016 £m	4 April 2016 £m
Prime residential mortgages	135,063	129,948
Specialist residential mortgages	33,197	32,114
Consumer banking	3,647	3,588
Commercial lending	11,410	11,772
Other lending	129	19
	183,446	177,441
Fair value adjustment for micro hedged risk	1,680	1,366
Total	**185,126**	**178,807**

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). 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

30 September 2016	Mortgages pledged	Notes in issue			
		Held by third parties	Held by the Group		Total notes in issue
			Drawn	Undrawn	
	£m	£m	£m	£m	£m
Covered bond programme	20,372	15,488	-	-	15,488
Securitisation programme	11,409	4,898	-	1,635	6,533
Whole mortgage loan pools	11,375	-	10,048	1,327	11,375
Total	**43,156**	**20,386**	**10,048**	**2,962**	**33,396**

Mortgages pledged to asset-backed funding programmes

4 April 2016	Mortgages pledged	Notes in issue			
		Held by third parties	Held by the Group		Total notes in issue
			Drawn	Undrawn	
	£m	£m	£m	£m	£m
Covered bond programme	18,996	13,709	-	-	13,709
Securitisation programme	12,368	4,705	-	1,635	6,340
Whole mortgage loan pools	12,344	-	10,749	1,595	12,344
Total	43,708	18,414	10,749	3,230	32,393

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. 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.

Notes to the consolidated interim financial statements (continued)

11 Loans and advances to customers (continued)

Mortgages pledged include £10.3 billion (4 April 2016: £7.4 billion) in covered bond and securitisation programmes that are in excess of the amount contractually required to support notes in issue.

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 in debt securities in issue.

Notes in issue, held by the Group and drawn are whole mortgage loan pools securing amounts drawn under the FLS. At 30 September 2016 the Group had outstanding FLS drawings of £8.0 billion (4 April 2016: £8.5 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 FLS 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 2016, £750 million and €85 million (£67 million sterling equivalent) of notes were issued, and no 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 £6.3 billion (4 April 2016: £6.3 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 2016 there were two scheduled repayments of principal totalling £68 million, no notes were redeemed early or matured and no new notes were issued.

12 Due to customers

On 22 September 2016 the Group announced the closure of its Isle of Man operations. Amounts due to customers include £4,588 million (4 April 2016: £4,813 million) in respect of balances deposited with the Group's Isle of Man branch.

Notes to the consolidated interim financial statements (continued)

13 Subordinated liabilities and subscribed capital

	30 September 2016 £m	4 April 2016 £m
Subordinated liabilities		
Subordinated notes	**2,849**	1,750
Fair value hedge accounting adjustments	**69**	77
Unamortised premiums and issue costs	**(12)**	(10)
Total	**2,906**	1,817
Subscribed capital		
Permanent interest bearing shares	**362**	362
Fair value hedge accounting adjustments	**78**	68
Unamortised premiums and issue costs	**(5)**	(17)
Total	**435**	413

$1,250 million (£949 million) of subordinated notes were issued during the period.

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), redeem the subordinated notes and repay the PIBS 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.

14 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 below:

Level 1 – Valuation using quoted market prices

Assets and liabilities are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price reflects actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Level 2 – Valuation technique using observable inputs

Assets and liabilities classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuations based on observable inputs include derivative financial instruments such as swaps and forwards which are valued using market standard pricing techniques, and options that are commonly traded in markets where all the inputs to the market standard pricing models are observable. They also include investment securities valued using consensus pricing or other observable market prices.

Notes to the consolidated interim financial statements (continued)

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

Level 3 – Valuation technique using significant unobservable inputs

Assets and liabilities are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data ('unobservable inputs'). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. An input is deemed significant if it is shown to contribute more than 10% to the valuation of a financial instrument. Unobservable input values are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

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 2016	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets				
Government and supranational investments	6,340	-	-	6,340
Other debt investment securities	1,051	2,471	-	3,522
Available for sale investment securities	7,391	2,471	-	9,862
Investments in equity shares (note i)	-	-	56	56
Interest rate swaps	-	2,796	-	2,796
Cross currency interest rate swaps	-	3,031	-	3,031
Forward foreign exchange	-	78	-	78
Equity index swaps	-	-	267	267
Index linked swaps	-	8	-	8
Total derivative financial instruments	-	5,913	267	6,180
Other financial assets (note ii)	-	3	-	3
Total financial assets	7,391	8,387	323	16,101
Financial liabilities				
Interest rate swaps	-	(3,908)	(4)	(3,912)
Cross currency interest rate swaps	-	(49)	-	(49)
Forward foreign exchange	-	(3)	-	(3)
Forward rate agreement	-	(1)	-	(1)
Swaptions	-	(6)	-	(6)
Equity index swaps	-	-	(1)	(1)
Total derivative financial instruments	-	(3,967)	(5)	(3,972)
Other deposits - PEBs (note iii)	-	-	(1,133)	(1,133)
Total financial liabilities	-	(3,967)	(1,138)	(5,105)

Notes to the consolidated interim financial statements (continued)

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

	Fair values based on			
4 April 2016	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Government and supranational investments	6,843	-	-	6,843
Other debt investment securities	1,011	2,758	-	3,769
Available for sale investment securities	7,854	2,758	-	10,612
Investments in equity shares (note i)	-	-	125	125
Interest rate swaps	-	2,180	-	2,180
Cross currency interest rate swaps	-	1,238	-	1,238
Forward foreign exchange	-	44	-	44
Equity index swaps	-	-	436	436
Total derivative financial instruments	-	3,462	436	3,898
Other financial assets (note ii)	-	2	-	2
Total financial assets	7,854	6,222	561	14,637
Financial liabilities				
Interest rate swaps	-	(3,103)	(4)	(3,107)
Cross currency interest rate swaps	-	(338)	-	(338)
Forward foreign exchange	-	(4)	-	(4)
Swaptions	-	(8)	-	(8)
Equity index swaps	-	-	(1)	(1)
Index linked swaps	-	(5)	-	(5)
Total derivative financial instruments	-	(3,458)	(5)	(3,463)
Other deposits - PEBs (note iii)	-	-	(1,885)	(1,885)
Total financial liabilities	-	(3,458)	(1,890)	(5,348)

Notes:
i. Investments in equity shares shown above are held at fair value and exclude £1 million of investments in equity shares which are held at cost.
ii. Other financial assets represent the fair value of certain mortgage commitments included within other assets in the balance sheet.
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 16.

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

Asset valuations for Level 2 available for sale investment securities are sourced from consensus pricing or other observable market prices. None of the Level 2 available for sale 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 15.

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 valuation. There were no significant transfers between Level 1 and Level 2 portfolios during the period.

Notes to the consolidated interim financial statements (continued)

15 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 £56 million (4 April 2016: £125 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 £1,133 million (4 April 2016: £1,885 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 losses/gains 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 £913 million (4 April 2016: £1,551 million). The maximum additional amount which would also be payable at maturity in respect of additional investment returns is £401 million (4 April 2016: £636 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)

15 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, including transfers in and out of Level 3.

Movements in Level 3 portfolio	**Investments in equity shares £m**	**Net derivative financial instruments £m**	**Other deposits - PEBs £m**
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)**

Movements in Level 3 portfolio	Available for sale investment securities £m	Investments in equity shares £m	Net derivative financial instruments £m	Other deposits - PEBs £m
At 5 April 2015	12	25	910	(3,332)
Gains/(losses) recognised in the income statement:				
Net interest income/(expense)	-	-	136	(177)
(Losses)/gains from derivatives and hedge accounting	-	-	(319)	311
Settlements	-	-	(136)	548
Transfers out of Level 3 portfolio	(12)	-	-	-
At 30 September 2015	-	25	591	(2,650)

Notes to the consolidated interim financial statements (continued)

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

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 these 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**	
	Fair value	**Favourable changes**	**Unfavourable changes**
At 30 September 2016	**£m**	**£m**	**£m**
Investments in equity shares	**56**	**19**	**(25)**
Net derivative financial instruments (note i)	**262**	**-**	**-**
Other deposits – PEBs (note i)	**(1,133)**	**-**	**-**
Total	**(815)**	**19**	**(25)**

Sensitivity of Level 3 fair values		Members' interests and equity	
	Fair value	Favourable changes	Unfavourable changes
At 4 April 2016	£m	£m	£m
Investments in equity shares	125	41	(32)
Net derivative financial instruments (note i)	431	-	-
Other deposits – PEBs (note i)	(1,885)	-	-
Total	(1,329)	41	(32)

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.

The level 3 portfolio at 30 September 2016 did not include any impaired assets (4 April 2016: £nil). The sensitivity analysis on fair values in the tables above therefore does not impact on 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

At 30 September 2016	**Total assets £m**	**Total liabilities £m**	**Valuation technique**	**Significant unobservable inputs**	**Range (note ii)**		**Weighted average (note iii)**	**Units (note iv)**
Investments in equity shares	**56**		**Discounted cash flows**	**Discount rate**	**10.00**	**12.00**	**11.00**	**%**
				Share conversion	**-**	**100.00**	**77.30**	**%**
				Execution risk	**-**	**30.00**	**20.00**	**%**
Net derivative financial instruments (note i)	**262**							
Other deposits – PEBs (note i)		**(1,133)**						

Notes to the consolidated interim financial statements (continued)

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

Significant unobservable inputs

At 4 April 2016	Total assets £m	Total liabilities £m	Valuation technique	Significant unobservable inputs	Range (note ii)		Weighted average (note iii)	Units (note iv)
Investments in equity shares	18		Mark to market	Price	93.30	107.00	98.00	Points
	107		Discounted cash flows	Discount rate	10.00	12.00	11.00	%
				Share conversion	-	100.00	77.30	%
				Execution risk	-	30.00	12.41	%
	125							
Net derivative financial instruments (note i)	431							
Other deposits – PEBs (note i)		(1,885)						

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.
iv. Points are a percentage of par; for example 100 points equals 100% of par. One basis point (bps) equals 0.01%; for example, 125 basis points (bps) equals 1.25%.

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, this is factored in to the fair value. The higher the share conversion factor, the higher the valuation and vice versa.

Execution risk

Where a security's value is dependent on a future transaction taking place, and the occurrence of this is not certain, execution risk is factored into the security's valuation. The greater the execution risk, the lower the valuation and vice versa.

Price

Prices for securities that are marked to market, where the market is illiquid, and supporting price information is scarce, are typically subject to significant uncertainty. An increase in the price will directly cause an increase in fair value and vice versa.

Notes to the consolidated interim financial statements (continued)

16 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:

		Fair values based on			
	Carrying value	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
30 September 2016	**£m**	**£m**	**£m**	**£m**	**£m**
Financial assets					
Loans and advances to banks	**3,323**	**-**	**3,323**	**-**	**3,323**
Loans and advances to customers:					
Residential mortgages	**168,260**	**-**	**-**	**167,332**	**167,332**
Consumer banking	**3,647**	**-**	**-**	**3,511**	**3,511**
Commercial lending	**13,090**	**-**	**-**	**11,909**	**11,909**
Other lending	**129**	**-**	**116**	**13**	**129**
Total	**188,449**	**-**	**3,439**	**182,765**	**186,204**
Financial liabilities					
Shares	**143,415**	**-**	**143,660**	**-**	**143,660**
Deposits from banks	**3,686**	**-**	**3,689**	**-**	**3,689**
Other deposits (note i)	**6,793**	**-**	**6,796**	**-**	**6,796**
Due to customers	**5,985**	**-**	**5,988**	**-**	**5,988**
Debt securities in issue	**43,650**	**15,954**	**29,352**	**-**	**45,306**
Subordinated liabilities	**2,906**	**-**	**3,081**	**-**	**3,081**
Subscribed capital	**435**	**-**	**387**	**-**	**387**
Total	**206,870**	**15,954**	**192,953**	**-**	**208,907**

		Fair values based on			
	Carrying value	Level 1	Level 2	Level 3	Total fair value
4 April 2016	£m	£m	£m	£m	£m
Financial assets					
Loans and advances to banks (note ii)	3,591	-	3,591	-	3,591
Loans and advances to customers:					
Residential mortgages	162,062	-	-	161,766	161,766
Consumer banking	3,588	-	-	3,458	3,458
Commercial lending	13,138	-	-	13,077	13,077
Other lending (note iii)	19	-	5	14	19
Total	182,398	-	3,596	178,315	181,911
Financial liabilities					
Shares	138,715	-	138,896	-	138,896
Deposits from banks	2,095	-	2,096	-	2,096
Other deposits (note i)	5,750	-	5,752	-	5,752
Due to customers (note ii)	6,201	-	6,204	-	6,204
Debt securities in issue	36,085	13,582	23,195	-	36,777
Subordinated liabilities	1,817	-	1,949	-	1,949
Subscribed capital	413	-	381	-	381
Total	191,076	13,582	178,473	-	192,055

Notes:

i. Other deposits exclude PEBs which are held at fair value through the income statement and which are included in note 14.

ii. The comparative fair values for loans and advances to banks and due to customers have been moved to Level 2, to better reflect the valuation approach, consistent with the current period presentation.

iii. Within other lending the comparative fair value for cash collateral posted with non-bank counterparties has been moved to Level 2 to better reflect the valuation approach, consistent with the current period presentation.

Notes to the consolidated interim financial statements (continued)

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

Loans and advances to customers

The Group estimates the fair value of loans and advances to customers using consistent modelling techniques 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 borrowings

The estimated fair value of shares and deposits with no stated maturity, including non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest rate shares, deposits and other borrowings without quoted market prices 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 deposits, estimated future cash flows are discounted using current market interest rates for new debt with similar remaining maturity. For fixed rate shares and deposits, 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.

17 Offsetting financial assets and financial liabilities

The Group has financial assets and liabilities for which there is a legally enforceable right to set off the recognised amounts, and which may be settled net. However the netting arrangements do not result in an offset of balance sheet assets and liabilities for accounting purposes as the right to set off is not unconditional in all circumstances. Therefore, in accordance with IAS 32 'Financial Instruments: Presentation', there are no financial assets or liabilities which are offset with the net amount presented on the balance sheet. All financial assets and liabilities are presented on a gross basis.

In accordance with IFRS 7 'Financial Instruments: Disclosures', the following table shows the impact on derivative financial instruments and total return swaps relating to transactions where:

- there is an enforceable master netting arrangement or similar agreement in place but the offset criteria are otherwise not satisfied, and
- financial collateral is paid and received.

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 following a default or other predetermined event.

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

Notes to the consolidated interim financial statements (continued)

17 Offsetting financial assets and financial liabilities (continued)

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.

At 30 September 2016	**Gross and net amounts reported on the balance sheet**	**Master netting arrangements**	**Financial collateral**	**Net amounts after offsetting under IFRS 7**
	£m	**£m**	**£m**	**£m**
Financial assets				
Derivative financial instruments	**6,180**	**(2,858)**	**(3,226)**	**96**
Reverse repurchase agreements	**200**	**-**	**(200)**	**-**
Total financial assets	**6,380**	**(2,858)**	**(3,426)**	**96**
Financial liabilities				
Derivative financial liabilities	**3,972**	**(2,858)**	**(1,078)**	**36**
Repurchase agreements	**536**	**-**	**(536)**	**-**
Total financial liabilities	**4,508**	**(2,858)**	**(1,614)**	**36**

At 4 April 2016	Gross and net amounts reported on the balance sheet	Master netting arrangements	Financial collateral	Net amounts after offsetting under IFRS 7
	£m	£m	£m	£m
Financial assets				
Derivative financial instruments	3,898	(2,020)	(1,804)	74
Total return swaps	87	-	(87)	-
Reverse repurchase agreements	450	-	(450)	-
Total financial assets	4,435	(2,020)	(2,341)	74
Financial liabilities				
Derivative financial liabilities	3,463	(2,020)	(1,391)	52
Repurchase agreements	127	-	(127)	-
Total financial liabilities	3,590	(2,020)	(1,518)	52

The fair value of the financial collateral is the same as the values shown in the table above, except for the repurchase agreements collateral which has a fair value of £533 million (4 April 2016: £128 million) and the total return swaps collateral at 4 April 2016 which had a fair value of £127 million.

Notes to the consolidated interim financial statements (continued)

18 Provisions for liabilities and charges

	Bank levy £m	FSCS £m	Customer redress £m	Other provisions £m	Total £m
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**
At 5 April 2015	13	126	140	16	295
Provisions utilised	(13)	(88)	(12)	(4)	(117)
Charge for the period	-	5	32	1	38
Release for the period	-	-	(8)	(1)	(9)
Net income statement charge	-	5	24	-	29
At 30 September 2015	-	43	152	12	207

The income statement charge for provisions for liabilities and charges of £48 million (H1 2015/16: £29 million) includes the FSCS release of £4 million (H1 2015/16: charge of £5 million) and the customer redress net income statement charge of £52 million (H1 2015/16: £24 million). The net income statement charge for other provisions of £8 million (H1 2015/16: £nil) is included within administrative expenses in the income statement.

Financial Services Compensation Scheme (FSCS)

The FSCS provision of £38 million represents the Group's interest and management expense levy in respect of the 2016/17 scheme year (4 April 2016: £84 million in respect of the 2016/17 and 2015/16 scheme years).

During October 2016, HM Treasury confirmed that approval had been given to UK Asset Resolution (UKAR) to begin the process of a major sales programme of Bradford & Bingley plc. The Group will continue to monitor the progress of this and will assess the financial impact as more information becomes available.

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 £244 million (4 April 2016: £227 million) in respect of potential redress and the costs of remediation 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 income statement charge for the year mainly reflects the Group's updated assumptions for provisions previously recognised. This includes a £45 million charge in relation to PPI, largely in response to the consultation paper CP16/20 issued by the Financial Conduct Authority (FCA) in August 2016. A further review will be undertaken when the policy statement is issued.

At 30 September 2016, the Group held a PPI provision of £146 million (4 April 2016: £117 million). This represents management's best estimate of future costs including the expected impact of Plevin v Paragon Personal Finance Limited. The principal uncertainty in this calculation is the impact of the proposed FCA media campaign on complaints volumes.

Notes to the consolidated interim financial statements (continued)

18 Provisions for liabilities and charges (continued)

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 2016	Future expected	Sensitivity
Claims (‘000s of policies) (note i)	**296**	92	10 = £11m
Average uphold rate (note ii)	**33%**	57%	5% = £5m
Average redress per claim (note iii)	**£1,323**	£871	£100 = £11m

Notes:
i. Claims include responses to proactive mailing.
ii. Future expected average uphold rate includes anticipated increase in uphold rate for Plevin related complaints.
iii. Future expected average redress includes redress for future claims upheld for Plevin.

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.

19 Contingent liabilities

During the ordinary course of business the Group is subject to complaints and threatened or actual legal proceedings, as well as regulatory reviews, challenges and investigations. 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.

20 Retirement benefit obligations

Retirement benefit obligations on the balance sheet	**30 September 2016 £m**	4 April 2016 £m
Present value of funded obligations	**6,059**	4,645
Present value of unfunded obligations	**12**	12
	6,071	4,657
Fair value of fund assets	**(5,348)**	(4,444)
Net defined benefit liability	**723**	213

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 2016; further details are set out in note 31 of the Annual Report and Accounts 2016.

Notes to the consolidated interim financial statements (continued)

20 Retirement benefit obligations (continued)

The principal actuarial assumptions used are as follows:

Principal actuarial assumptions	30 September 2016 %	4 April 2016 %
Discount rate	**2.30**	3.45
Future salary increases	**3.00**	2.90
Future pension increases (maximum 5%)	**2.85**	2.75
Retail price index (RPI) inflation	**3.00**	2.90
Consumer price index (CPI) inflation	**2.00**	1.90

The assumptions for mortality rates are based on standard mortality tables which allow for future improvements in life expectancies.

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 2016 £m	30 September 2015 £m
At 5 April	213	286
Current service cost	**30**	31
Past service cost	**1**	1
Curtailment gains	**(1)**	(1)
Interest on net defined benefit liability	**3**	4
Return on assets (greater)/less than discount rate	**(807)**	268
Contributions by employer	**(77)**	(78)
Administrative expenses	**2**	2
Actuarial losses/(gains) on defined benefit obligations	**1,359**	(314)
Net defined benefit liability	**723**	199

The increase in the net defined benefit liability is mainly due to an increase in the value of defined benefit obligations, partially offset by the return on assets and employer contributions.

The £1,359 million of actuarial losses (H1 2015/16: £314 million of actuarial gains) on defined benefit obligations is driven by a 1.15% decrease in the discount rate and a 0.10% increase in assumed long-term inflation since 4 April 2016, as a result of changes in market conditions.

The £807 million from a return on assets which is greater than the discount rate (H1 2015/16: £268 million from a return less than the discount rate), is driven by changes in market conditions, including falling bond yields and strong equity returns.

The net impact of the actuarial losses and the return on assets is a reduction of £405 million (H1 2015/16: increase of £37 million) in general reserves.

The £77 million of employer contributions includes a deficit contribution of £49 million in July 2016 (H1 2015/16: £49 million), with the remainder relating to employer contributions in respect of the accrual of future benefits during the period.

21 Core capital deferred shares (CCDS)

	Number of shares	CCDS £m	Share premium £m	Total £m
At 30 September 2016	**5,500,000**	**6**	**525**	**531**
At 4 April 2016	5,500,000	6	525	531

Notes to the consolidated interim financial statements (continued)

21 Core capital deferred shares (CCDS) (continued)

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 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 £100 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 £15.32 per share and is adjusted annually in line with CPI.

A final distribution of £28 million (£5.125 per share) for the financial year ended 4 April 2016 was paid on 20 June 2016. This distribution has been recognised in the statement of movements in members' interests and equity.

The directors have declared a distribution of £5.125 per share in respect of the period to 30 September 2016, amounting in aggregate to £28 million. The distribution will be paid on 20 December 2016 and will be recognised through the consolidated statement of movements in members' interests and equity by reference to the date at which it was approved.

22 Other equity instruments

	Total £m
At 30 September 2016	**992**
At 4 April 2016	992

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 2016, was paid on 20 June 2016. This payment has been recognised in the statement of movements in members' interests and equity.

A coupon of £34 million in respect of the period to 19 December 2016 is expected to be paid on 20 December 2016 and will be recognised in the statement of movements in members' interests and equity 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.

Notes to the consolidated interim financial statements (continued)

23 Related party transactions

Related party transactions in the period ended 30 September 2016 are similar in nature to those included in the Annual Report and Accounts 2016. Loans to key management personnel at 30 September 2016, undertaken on normal commercial terms, were £1.2 million (4 April 2016: £1.4 million).

Full details of the Group's related party transactions for the year to 4 April 2016 can be found in note 36 of the Annual Report and Accounts 2016.

24 Notes to the cash flow statement

	Half year to 30 September 2016 £m	Half year to 30 September 2015 £m
Non-cash items included in profit before tax		
Net decrease in impairment provisions	**(40)**	(199)
Net decrease in provisions for liabilities and charges	**(45)**	(88)
Impairment losses on investment securities	**5**	-
Depreciation and amortisation	**175**	155
Profit from sale of property plant and equipment	**(1)**	(1)
Interest on subordinated liabilities	**54**	50
Interest on subscribed capital	**24**	11
Gains from derivatives and hedge accounting	**(77)**	(14)
Total	**95**	(86)

Changes in operating assets and liabilities		
Loans and advances to banks	**(19)**	5
Net derivative financial instruments and fair value adjustment for portfolio hedged risk (note i)	**(1,809)**	(67)
Loans and advances to customers	**(6,279)**	(3,219)
Other operating assets	**(625)**	(20)
Shares	**4,700**	2,582
Deposits from banks, customers and others	**1,666**	(9)
Debt securities in issue	**2,686**	37
Deferred taxation (note i)	**(83)**	(20)
Retirement benefit obligations	**510**	(87)
Other operating liabilities	**(137)**	65
Total (note i)	**610**	(733)

Cash and cash equivalents		
Cash	**17,213**	7,899
Loans and advances to banks repayable in 3 months or less (note ii)	**2,979**	3,301
Total	**20,192**	11,200

Notes:

i. Amounts in relation to derivative financial instruments and fair value adjustment for portfolio hedged risk and deferred taxation are presented on a net basis; comparative information has been reclassified to conform to the current presentation.

ii. Cash equivalents include £2,216 million (30 September 2015: £2,599 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 2016, amounted to £344 million (30 September 2015: £307 million). These balances are included within loans and advances to banks on the balance sheet but are not included in the cash and cash equivalents in the cash flow statement as they are not liquid in nature.

25 Post balance sheet event

On 4 November 2016 the Group announced that it will cease new lending to commercial real estate (CRE) customers. Existing CRE loans will continue to run off in line with their contractual terms.

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 2016.

A full list of the board of directors can be found in the Annual Report and Accounts 2016, with the following updates in respect of changes that have occurred during the period to 30 September 2016:

- Roger Perkin retired from the Board on 21 July 2016 following the AGM.
- Lynne Peacock was appointed as the Senior Independent Director on 21 July 2016.
- Kevin Parry was appointed as the Chairman of the Audit Committee and a member of the Nomination and Governance Committee on 21 July 2016.

Signed on behalf of the Board by

Mark Rennison
Group Finance Director

17 November 2016

Independent review report to Nationwide Building Society ('the Society')

Report on the consolidated interim financial statements

Our conclusion

We have reviewed Nationwide Building Society's consolidated interim financial statements (the "interim financial statements") on pages 54 to 83 in the interim results of Nationwide Building Society for the six month period ended 30 September 2016. 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 Rules and Transparency Rules 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 2016;
- 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 have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Rules and Transparency Rules 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, 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 in accordance with the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the interim results based on our review. This report, including the conclusion, has been prepared for and only for the Society for the purpose of complying with the Disclosure Rules and Transparency Rules 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 Ireland) 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.

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

PricewaterhouseCoopers LLP
Chartered Accountants
London
17 November 2016

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 2016 has been extracted from the Annual Report and Accounts 2016. The Annual Report and Accounts 2016 has been filed with the Financial Conduct Authority and the Prudential Regulation Authority. The Independent Auditors' Report on the Annual Report and Accounts 2016 was unqualified.

Nationwide has adopted the British Bankers' Association Code on Financial Reporting Disclosure ('the BBA code') in its Annual Report and Accounts 2016. The code sets out five disclosure principles together with supporting guidance. Full details of the principles are included in the Annual Report and Accounts 2016. 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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Appendix – Additional capital disclosures

Following publication of 'EBA Guidelines on Materiality, Proprietary and Confidentiality and on Disclosure Frequency', additional disclosures on the capital position are required as part of the Group's interim reporting. These are included within this Appendix.

These additional disclosures have not been subject to review by PricewaterhouseCoopers LLP.

Table 1: EBA Own Funds disclosure template		**Current Rules (note i)**		**Full Impact (note ii)**	
		30 September 2016	4 April 2016	**30 September 2016**	4 April 2016
		£m	£m	**£m**	£m
	Common Equity Tier 1 (CET1) Capital: instruments and reserves				
1	Capital Instruments and the related share premium accounts	**531**	531	**531**	531
2	Retained earnings	**8,463**	7,937	**8,463**	7,937
3	Accumulated other comprehensive income (and other reserves)	**47**	56	**47**	56
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	**460**	942	**460**	942
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**9,501**	9,466	**9,501**	9,466
	Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	**(47)**	(55)	**(47)**	(55)
8	Intangible assets (net of related tax liability) (negative amount)	**(1,177)**	(1,132)	**(1,177)**	(1,132)
12	Negative amounts resulting from the calculation of expected loss amounts	**(209)**	(264)	**(209)**	(264)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	**(1)**	(2)	**(1)**	(2)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(1,434)**	(1,453)	**(1,434)**	(1,453)
29	**Common Equity Tier 1 (CET1) capital**	**8,067**	8,013	**8,067**	8,013
	Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	**992**	992	**992**	992
31	of which: classified as equity under applicable accounting standards	**992**	992	**992**	992
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out of AT1	**426**	404	**-**	-
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**1,418**	1,396	**992**	992
44	Additional Tier 1 (AT1) capital	**1,418**	1,396	**992**	992
45	Tier 1 capital (T1 = CET1 +AT1)	**9,485**	9,409	**9,059**	9,005

Appendix – Additional capital disclosures (continued)

		Current Rules (note i)		Full Impact (note ii)	
		30 September 2016	4 April 2016	**30 September 2016**	4 April 2016
		£m	£m	**£m**	£m
	Tier 2 (T2) capital: instruments and provisions				
46	T2 Capital instruments and the related share premium accounts	**2,628**	1,628	**2,628**	1,628
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	**30**	29	**-**	-
50	Credit risk adjustments	**19**	21	**19**	21
51	**Tier 2 (T2) capital before regulatory adjustments**	**2,677**	1,678	**2,647**	1,649
58	**Tier 2 (T2) capital**	**2,677**	1,678	**2,647**	1,649
59	**Total capital (TC = T1 + T2)**	**12,162**	11,087	**11,706**	10,654
60	**Total risk weighted assets**	**34,636**	34,475	**34,636**	34,475
	Capital ratio and buffers				
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	**23.3%**	23.2%	**23.3%**	23.2%
62	Tier 1 (as a percentage of total risk exposure amount)	**27.4%**	27.3%	**26.2%**	26.1%
63	Total capital (as a percentage of total risk exposure amount)	**35.1%**	32.2%	**33.8%**	30.9%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	**23.3%**	23.2%	**23.3%**	23.2%
	Applicable caps on the inclusion of provisions in Tier 2				
76	Credit risk adjustment included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	**19**	21	**19**	21
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	**34**	38	**34**	38
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	**153**	154	**153**	154
82	Current cap on AT1 instruments subject to phase out arrangements	**633**	633	**-**	-
84	Current cap on T2 instruments subject to phase out arrangements	**237**	237	**-**	-

Notes:
i. Also referred to as 'transitional' basis.
ii. Also referred to as 'end point' basis (i.e. assuming all CRD IV requirements were in force in full with no transitional provisions permitted).

Appendix – Additional capital disclosures (continued)

Table 2: Movements in regulatory capital	**£m**
Common Equity Tier 1 capital at 5 April 2016	8,013
Profit for the period	**502**
Other movement in general reserves (note i)	**(458)**
Movement in foreseeable distributions	**-**
Available for sale reserve	**(12)**
Revaluation reserves	**3**
Decrease/(increase) in:	
Prudent valuation adjustment	**8**
Own credit risk adjustment	**1**
Intangible assets and goodwill	**(45)**
Excess of regulatory expected loss over impairment provisions	**55**
Common Equity Tier 1 capital at 30 September 2016	**8,067**
Additional Tier 1 capital at 4 April 2016 and 30 September 2016	**992**
Total Tier 1 capital at 30 September 2016	**9,059**
Tier 2 capital at 5 April 2016	1,649
Subordinated debt instrument issuance	**964**
Amortisation on dated subordinated debt	**(88)**
Fair value adjustments on dated subordinated debt	**124**
Increase/(decrease) in:	
Collectively assessed impairment allowances	**(2)**
Excess of impairment provisions over regulatory expected loss	**-**
Tier 2 capital at 30 September 2016	**2,647**
Total regulatory capital at 5 April 2016	**10,654**
Total regulatory capital at 30 September 2016	**11,706**

Note:
i. Includes all movements in general reserves, other than profit for the period.

CET1 capital resources have increased over the period by £54 million, mainly as a result of a good financial performance, with £502 million of profit after tax for the period, being offset by an increase in other movements in general reserves, mainly as a result of a higher pension deficit. Tier 2 capital has increased following the issuance of $1.25 billion of qualifying Tier 2 subordinated debt with a coupon of 4% and a maturity of 10 years.

Appendix – Additional capital disclosures (continued)

The movements in credit risk RWAs over the period are set out in the table below:

RWA flow statement	RWAs at 4 April 2016	Growth/ (reduction) in book size	(Improvement)/ deterioration in book quality	Model changes	RWAs at 30 September 2016
	£m	£m	£m	£m	£m
Credit risk:					
Residential mortgages	14,086	186	(419)	-	13,853
Unsecured lending	5,621	131	131	(74)	5,809
Commercial	6,194	(170)	72	-	6,096
Treasury (note i)	1,039	(186)	14	-	867
Counterparty credit risk and credit valuation adjustment (note ii)	1,296	489	(129)	-	1,656
Other (note iii)	1,635	116	-	-	1,751
Total credit risk	29,871	566	(331)	(74)	30,032
Operational risk	4,604	-	-	-	4,604
Market risk (note iv)	-	-	-	-	-
Total	34,475	566	(331)	(74)	34,636

Notes:
i. Treasury excludes RWA movements in prime liquidity assets, as these are zero risk weighted.
ii. Counterparty credit risk includes the credit valuation adjustment and relates to derivative financial instruments and repurchase agreements.
iii. Other relates to fixed and other assets and equity holdings held on the balance sheet.
iv. The Group has elected to set this to zero, as permitted by the CRR, as exposure was below the threshold of 2% of own funds.

Regulatory capital for credit risk

The Pillar 1 credit risk capital requirements (risk weights) are calculated using:

- The retail Internal Ratings Based (IRB) approach for prime, buy to let and self-certified mortgages (other than those originated by the Derbyshire, Cheshire and Dunfermline building societies) and unsecured lending
- The foundation IRB and specialised lending 'slotting' methodology for treasury and commercial portfolios respectively (other than sovereign exposures)
- The standardised approach for all other credit risk exposures, including some treasury (including sovereign) and commercial exposures which are exempt from the IRB approach.

Pillar 1 capital requirements are calculated at 8% of the risk weighted assets, so the Group's credit RWAs of £30,032 million generate a Pillar 1 capital requirement of £2,403 million. The following table shows how the capital requirements for Pillar 1 credit risk are attributed to exposure classes (as defined by the Capital Requirements Regulation) and by risk calculation approach at 30 September 2016.

Appendix – Additional capital disclosures (continued)

Table 4: Minimum Pillar 1 capital requirements for credit risk	30 September 2016 £m	4 April 2016 £m
Internal Ratings Based (IRB) exposure classes:		
Institutions	**26**	38
Corporates (commercial lending)	**483**	480
Retail mortgages (secured against residential lending)	**911**	917
Qualifying revolving retail	**342**	325
Other retail (unsecured loans)	**123**	125
Securitisation positions	**25**	27
Equity (note i)	**9**	24
Non-credit obligation assets (fixed assets and other)	**90**	90
Counterparty credit risk	**133**	104
Total IRB exposure classes	**2,142**	2,130
Standardised exposure classes:		
Central government and central banks (note ii)	**-**	-
Regional governments and local authorities	**1**	1
Multilateral development banks (note ii)	**-**	-
Corporates (non-commercial)	**8**	7
Retail mortgages (secured against residential property)	**177**	190
Other Retail (note iii)	**-**	-
Commercial lending (secured against property)	**3**	5
Commercial lending (other)	**1**	7
Past due	**20**	22
Other (note iv)	**51**	28
Total standardised exposure classes	**261**	260
Total capital requirements for credit risk	**2,403**	2,390

Notes:
i. The reduction in equity capital requirements relates to the disposal of the Group's investment in Visa Europe Limited.
ii. Exposures to central banks and governments and multilateral development banks are all zero risk weighted, so there is no Pillar 1 capital requirement.
iii. Other Retail contains personal loan exposures with a capital requirement of £0.1 million.
iv. The items included in the 'Other' exposure class that attract a capital charge include items in the course of collection, cash in hand and deferred tax assets that rely on future profitability.

Table 5: Internal Ratings Based (IRB) exposures and average risk-weights	30 September 2016 Exposure £m	4 April 2016 Exposure £m	30 September 2016 Average RWA %	4 April 2016 Average RWA %
IRB exposure classes:				
Foundation IRB				
Institutions	**2,277**	2,961	**14.5**	16.0
Corporates (commercial lending)	**14,175**	14,046	**42.6**	42.7
Securitisation positions	**2,398**	2,686	**13.0**	12.5
Equity	**30**	81	**370.0**	370.0
Non-credit obligation assets (fixed assets and other)	**1,128**	1,126	**100.0**	100.0
Counterparty credit risk	**5,531**	3,693	**14.0**	16.2
Advanced IRB				
Retail Mortgages (secured against residential lending)	**176,757**	168,998	**6.4**	6.8
Qualifying revolving retail	**8,595**	8,420	**49.8**	48.2
Other retail (unsecured loans)	**2,022**	1,962	**75.7**	79.5
Total IRB exposure classes	**212,913**	203,973	**12.2**	12.7

There has been a small improvement in average IRB risk-weights from 12.7% to 12.2%, mainly due to an improvement in the book quality of the retail mortgages portfolio as a result of rising house prices.

Appendix – Additional capital disclosures (continued)

The following three tables provide details on the components of the exposure measure used to calculate the Group's leverage ratio, disclosed in templates prescribed by the EBA. The exposure measure has increased by £14.7 billion from £213.2 billion to £227.9 billion. This is due to growth in on balance sheet exposures driven by increases in residential mortgage balances and central bank reserves.

Table 7a: (LRSum) Summary reconciliation of accounting assets and leverage ratio exposures		30 September 2016	4 April 2016
		£m	£m
1	Total assets as per published financial statements	**225,546**	208,939
4	Adjustments for derivative financial instruments	**(5,528)**	(3,974)
5	Adjustments for Securities Financing Transactions (SFTs)	**3,484**	4,004
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	**5,817**	5,663
7	Other adjustments	**(1,433)**	(1,451)
8	**Leverage ratio exposure**	**227,886**	213,181

Table 7b: (LRSpl) Split of on-balance sheet exposures (excluding derivatives and securities financing transactions)		CRR Leverage Ratio Exposure	
		30 September 2016	4 April 2016
		£m	£m
EU-1	Total on-balance sheet exposures (excluding derivatives and SFTs), of which:	**219,366**	205,041
EU-3	Banking book exposures, of which:	**219,366**	205,041
EU-4	Covered bonds	**1,053**	1,012
EU-5	Exposures treated as sovereigns	**24,213**	15,838
EU-6	Exposures to regional governments, MDB, international organisations and public sector entities not treated as sovereigns	**472**	530
EU-7	Institutions	**1,224**	1,949
EU-8	Secured by mortgages of immovable properties	**168,017**	162,000
EU-9	Retail exposures	**3,746**	4,300
EU-10	Corporate	**13,891**	13,329
EU-11	Exposures in default (standardised)	**243**	273
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	**6,507**	5,810

Appendix – Additional capital disclosures (continued)

Table 7c: (LRCom) Leverage ratio common disclosure		CRR leverage ratio exposures 30 September 2016 £m	CRR leverage ratio exposures 4 April 2016 £m
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	**219,366**	205,041
2	Asset amounts deducted in determining Tier 1 capital (note i)	**(1,433)**	(1,451)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**217,933**	203,590
	Derivative exposures		
4	Replacement cost associated with derivatives transactions	**3,326**	1,883
5	Add-on amounts for Potential Future Exposure (PFE) associated with derivatives transactions	**1,516**	1,236
7	Cash variation margin (as per Delegated Act)	**(4,190)**	(3,195)
11	**Total derivative exposures**	**652**	(76)
	Securities Financing Transaction (SFT) exposures		
14	SFT Adjustment	**3,484**	4,004
16	Total securities financing transaction exposures	**3,484**	4,004
	Off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	**23,345**	22,143
18	Adjustments for conversion to credit equivalent amounts	**(17,528)**	(16,480)
19	Total off-balance sheet exposures (note ii)	**5,817**	5,663
	Capital and total exposures		
20	Tier 1 capital	**9,059**	9,005
21	Total Exposures	**227,886**	213,181
	Leverage ratio		
22	Leverage ratio	**4.0%**	4.2%
	Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Full Impact	

Notes:
i. Representing intangible assets (including goodwill), expected loss deductions and prudent valuation adjustment.
ii. This is the total credit equivalent amount of off-balance sheet exposures as required by the Capital Requirements Regulation (CRR).